The Indian Central Banking Enquiry Committee

1931

VOLUME

Part II—MINORITY REPORT

CALCUTTA: GOVERNMENT OF INDIA
CENTRAL PUBLICATION BRANCH
1931

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Minority Report of Mr. Manu Subedar.

CHAPTER I.

PRELIMINARY.

1. The terms of reference to the Committee were as follows:—

"To investigate past records and existing conditions of banking in India including the organisation of the Money Market and to consider the steps, if any, that are feasible and desirable under the following main headings:—

(*a*) the Development of Banking with a view to the expansion of indigenous, co-operative and joint stock banking with special reference to the needs of agriculture, commerce and industry;

(*b*) the Regulation of Banking with a view to protecting the interests of the public; and

(*c*) Banking Education with a view to the provision of Indian personnel in adequate numbers and with the necessary qualifications to meet the increasing needs of the country for a sound and well managed national system of banking."

WHY I DECIDED TO WRITE A SEPARATE REPORT.

2. It was with much hesitation and many regrets, that I came to the decision, almost at the conclusion of the Committee's work, to write a separate report. The prospect of one member, who breaks away from nineteen colleagues and who has to plough the whole field by himself, could never be very cheerful. It is not that I have more facts, or indeed more of anything than my colleagues. Nor would I have it understood for one moment that all my colleagues had any other outlook except a genuine concern for securing those ends of banking progress, which were indicated in the terms of reference Representing different interests and different types of experience in life, we came together for the common purpose of studying the phenomena and of devising measures, both remedial and progressive. At a certain stage, I found myself differing from my colleagues with regard to the nature of the problem, the extent and avenues of information bearing on it, and the measures, which it would be in the interests of India to adopt. I did not feel confident that a closer discussion would lead to a coalescence, even if there had been opportunities for such discussion. Under the circumstances I felt that it would secure better public advantage, if both the problem and the lines of progress contemplated were stated separately to enable those, who would have to make public decisions on these subjects, to choose for themselves.

3. Mention is called for with regard to two outstanding features of procedure associated with our enquiry,—features, which were unprecedented and about the success of which, there would be legitimate public curiosity. The first unusual feature with regard to our Committee was the association of foreign "experts". I am using the word "experts" in inverted comma throughout this report, so that its connotation may be confined to whatever it was intended to be by Government in their communique to us announcing, that foreign "experts" would be associated with our enquiry, that they would examine all material, consult with us, examine our conclusions and have the right to make a separate report.* I wish it to be understood that no reflection is intended or involved on the gentlemen, who came and who discharged their duties to the best of their light. I am only explaining that the procedure was novel and unprecedented. They were not members. They were not advisers; else they would not have claimed, or been given a right to make a separate report. Personally, I would not be honest with myself, if I did not indicate that I derived no help from them. On the contrary, on many occasions the manner, in which these gentlemen expressed themselves became a matter of puzzle and mystery to me. That there were fundamental differences, both of outlook and method between them and myself, would be indicated at various places in the body of the report.

4. The next unusual feature was the appointment of the Provincial Committees, who examined the details relating to a part of the total enquiry, without any direct link with the Central Committee. It is true that a model questionnaire was given to them, but this was before the Central Committee had discussed among themselves, or envisaged the problem. It is true that their reports were available to us. But the written word cannot always convey the impressions formed, and the impression formed by others cannot always be arranged in thought perspective in a satisfactory manner. There are obvious difficulties in drawing general conclusions where the terms may not have had the same meaning in the minds of different Committees,* who in their turn were faced with an overwhelming variety of statements by witnesses not used to technically

* *Sir George Schuster.*—" The intention and the desire is that the foreign expert should work in close co-operation with the Central Banking Enquiry Committee and that there should be a common and agreed report. The exact procedure for recording the foreign experts' views is actually now under discussion. There is no disagreement between the Central Banking Enquiry Committee and the foreign experts, or between the Central Banking Enquiry Committee and myself as representing the Government of India, on that subject. I cannot inform the Honourable Member exactly what form the record of the views of the foreign experts will take. It is simply a question of practical convenience. One of the foreign experts actually has to leave India on the 5th February, and it may be necessary to obtain some written record, so as to incorporate his particular ideas, before he goes. But the general intention is that the foreign experts, as I have said, should work in close co-operation with the Central Banking Enquiry Committee, and I have every hope that there will be no difference of opinion between the two bodies."—(Reply to starred question No. 71 of Mr. B. Das in the Legislative Assembly on 27th January 1931.)

well defined description. It is a pity that the Provincial Committees were held down to a rigid limitation of time in preparing their report. Nevertheless the brilliance of some of the reports and the very hard work, which must have been put in by many people in connection with them, in the systematic presentation of facts hitherto unsifted, reflects the highest credit on the Provincial Committees.

I am mentioning these two extraordinary circumstances in connection with our Committee not with a view to criticise the procedure myself, but with a view to attract public attention to them, to enable the legislature in the appointment of public enquiries in future, to call for relevant material and to decide on the utility of these expedients.

5. It is necessary to state that, to some extent, Provincial Committees as well as the Central Committee had to base wide generalisations on the basis of slender data. It is a pity that the collection of statistics in India outside those, which are needed for direct administrative use, is defective. Serious gaps have been discovered with regard to facts relating to the economic life of the people in many important directions. Some of my colleagues have questioned the reliability of other facts, which have been put forward in some Provincial Committees' reports. Provincial Committees have shown themselves in many places unable to get at the facts. The consequence has been that, after an enquiry of this kind, quantitative results in many directions are not available. From conclusions involving qualifying phrases like "rarely, in some cases, frequently, generally", one could derive a limited help in

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Maulvi Muhammad Yakub.—Will the Honourable Member tell the House why the foreign experts were invited; by whom they were invited, and who bears their expenses?

The Honourable Sir George Schuster.— . . . It was always made clear that foreign experts would be associated with the Central Committee in making their final recommendation. I gave this Assembly full information of the whole plan at all its stages. . . The cost of having these foreign experts out will not be great because in practically all cases these gentlemen, although they are very busy and important people, have agreed to come free of all cost except their own expenses.—(Supplementary question to starred question No. 71 and reply in the Legislative Assembly on 27th January 1931.)

* Compare the following statement regarding the number of indigenous bankers:—

(*a*) *Bombay.*—According to the census of 1921 there were in the Presidency 26,303 bank managers, money-lenders, exchange and insurance agents, money-changers and brokers and their employees. Actual figures of bankers are not available. The number of indigenous bankers including money-lenders is roughly estimated at 20,000. (Bom., para. 254.)

(*b*) *Bihar and Orissa.*—The number of those doing business of a shroff and nothing else will not for the whole province exceed 10; the mixed shroffs will not number more than 150. These figures are however based on impressions and not on any statistical data. (B. & O., para. 368.)

(*c*) *Bengal.*—Number *cannot be ascertained.* There are only a few indigenous bankers and their number is decreasing. (Ben., para. 375.)

(*d*) *Assam.*—Statistics as to the number of such bankers are *not available.*

(*e*) *Burma.*—The total number of Chettiyar offices in Burma has been estimated by the Committee at 1,650. Of this number roughly 360 are in

thought. As the country should be in equally unprepared condition when these matters come up again, as they must, either for legislation or for fresh enquiry, it is essential that more reliable data should be available than has been the case on this occasion. Boards of Economic Enquiry exist in some provinces and have been asked for by several other provinces. It is recommended that they should be set up, but with two distinct provisos. It is essential that a poor country like India has got to be forewarned on the question of cost. It may be possible to keep down costs by utilising young undergraduates and graduates, who could turn out very useful work, if properly directed. The other condition is that, the energy available should be spent after the collection of economic facts according to some definite all-India programme in a manner in which the results of one province could be comparable with another. So far as the Central Committee was concerned, they also suffered from lack of information, but in other ways. A questionnaire was sent to many parties, whose experience and whose reputation would justify the belief that they would have valuable information and views to offer. It was sent out to all banking institutions in the country, Indian and foreign, but the response was somewhat poor. Whether witnesses were frightened at the formidable questionnaire, or were unwilling to disclose information, which was in their possession, or lacked the public spirit to assist an enquiry intended to secure public advantage, it would be difficult to say. The unwillingness of parties to come before our Committee in oral evidence may be intelligible, but the unwillingness of banks to make information available, without which the work of the Committee cannot go on, seemed to be very striking. Two managers of British banks, representing the Exchange Banks Association, appeared before us. Their evidence will indicate the paucity

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Rangoon, 1,083 in Lower Burma excluding Rangoon, 195 in Upper Burma excluding the Shan States, and 12 in the Federated Shan States. Bur., para. 456.)

(*f*) *Central Provinces.*—There are a number of big firms, which are popularly known as banking houses, though only one of them conforms to the definition of indigenous banker. (C. P., paras. 1911-12.)

(*g*) *United Provinces.*—The Committee estimate that there are in the whole province about 250 indigenous bankers or sarrafs who are willing to receive deposits. The number of modern indigenous banking firms is 7. (U. P., paras. 133, 419.)

(*h*) *Punjab.*—According to information obtained mainly from Income-tax officers, the total number of indigenous bankers in the province is only 66, distributed over 11 districts. There are 18 districts with not a single indigenous banker. (Pun., para. 187.)

(*i*) *Central Areas.*—Only 29 firms in Ajmer-Merwara named in the report are regarded as real indigenous bankers. (C. A., para. 197.) Of the 100 bankers and money-lenders who pay income-tax in Delhi province only 43 are recognized as professional shroffs or indigenous bankers, although besides these there are over 100 persons who regularly buy hundis in the market. None of the 43 firms deals exclusively in banking. (C. A., para. 204.) In the North-West Frontier Province money-lending and banking trades are not confined to Hindus. Quite a large number of Muslims are in the banking line and have their branch offices in Kabul. Local inquiries show that in the market only 29 houses are considered as real bankers among the Hindus. Very few of these do banking business exclusively. (C. A., para. 212.)

of information, on which the Committee had to proceed. Neither the Dutch nor the Japanese nor the American interests in foreign banks sent any communication to us. With regard to foreign banks generally, my efforts to secure information started fairly early. How unsuccessful they were, is indicated in one or two places in the body of the report and would be found from Annexure No. 1 to the report, in which is given correspondence on this subject with the office, which speaks for itself.

6. The terms of reference require the " development of banking "—an expression, that has been interpreted by the foreign " experts " as meaning the growth of banking in the geographical area known as India. It is only on such an interpretation that the European view with regard to adequacy of facilities and remarkable advance during the last few years is based.* It is on this basis, again, that the general advice to leave matters to natural evolution and to interfere as little as possible, is derived. Such an interpretation can be understood, but is wholly unacceptable. The problem, to my mind, is twofold. On the one hand, there is the unprecedented phenomenon of the foreign control of banking resources in India, of such control growing and strengthening in many directions and menacing Indian institutions. There is, on the other hand, the question of necessary readjustments inside the country to secure orderly advance and to secure considerable advance, which has to be made before Indian conditions could at all compare with other countries in the matter of the provision of banking facilities. Different remedies are clearly indicated with regard to these two matters. It was impossible to treat the subject as a whole without making the distinction at every stage. I have, in writing this report, thought it necessary to indicate the problem wherever possible and to indicate a remedy wherever a remedy was in sight. I have tried to do whatever was possible to do under the circumstances in view of the lack of information and the shortness of time available. I have, in doing this, drawn upon myself the difficult task, which men, who recommend any changes, have upon their

* " Generally speaking, it cannot be gainsaid that whatever deficiencies there may be in the banking position in India, they are much more the result of the fundamental circumstances, which dominate the financial and economic life of India, than of lack of banking facilities. We are of opinion, that a strong and keen competition exists in banking. In so far as no banking possibilities are available, no modern banking facilities can be expected. No bank, working on sound principles, can be expected to extend its activities unless there is a fair prospect of reasonable profits being made in the near future."—(Foreign " Experts " Report.)

" It is our opinion that the immediate problem in connection with banking is not a question of expansion but of organisation, consolidation and co-ordination."—(Foreign " Experts " Report.)

" The Committee mention in conclusion 1 (*a*) that the number of principal towns which possess a bank or a branch or agency of a bank, was only 339 in 1928. If we consider that in 1919 the number was only 185, so that during this comparatively short period of ten years, there has been an increase of 154 or 83 per cent. the figures seem to be not unsatisfactory and considerable extension of banking facilities has been achieved."—(Foreign " Experts " Report.)

head. Those, who are content with existing arrangements, have necessarily a smug satisfaction. I have felt that, where the deterioration is great, the remedies employed have also got to be heroic, and yet I have kept myself within the bounds of great moderation with regard to the measures suggested, particularly for the first problem. In a field, which had not been hitherto examined, it was inevitable that confusion beyond human calculation should be disclosed. Defeatism and helplessness must, however, be avoided. In the discussion with the foreign "experts", it was sometimes urged that everything was alright and it should not be in India's interests to disturb things, and that it was better to leave them to natural development and evolution. Sometimes I found that it was urged that the east was east and human nature was different. In our discussions, particularly on agricultural indebtedness, it was sometimes said that the problem was so far gone, that little could be done to remedy it. Often the advocacy of progressive measures was damped by the administrative complications and difficulties, which they would raise. I have tried in this report not to abandon a problem because of its difficulties, not to reject a remedy, because there were obstacles. I have done so merely for the reason that further enquiry into the subject should not be shut out. The failure of the Banking Committee to produce results, which would collectively effect an improvement with regard to both sides of the problem, as stated above, would be tragic. I have assumed that there is in India a will to change and also that there is nothing in the political institutions of the country to prevent measures indicated from being adopted.* To the extent to which India's constitution does not permit such measures, the results, which are foreshadowed, would not be achieved, and the evil, which it is sought to remedy, will not be remedied.

7. Some esteemed friends of mine asked me, whether a separate report would be of any use. In the long perspective of human affairs, everything, that is created whether jointly or separately,

*"During the last ten years, in one branch of commerce and industry after another, the evidence has been unmistakable that important sections of Indian opinion desire to secure the rapid development of Indian enterprises, at the expense of what British firms have laboriously built up over a long series of years. There is nothing surprising in the fact that national consciousness should thus have found expression. Indians who desire to see the growth of Indian banking, Indian insurance, Indian merchant shipping, or Indian industries find themselves faced by the long-established British concerns whose experience and accumulated resources render them formidable competitors. In these circumstances, it may seem to them that the ground is already occupied and that there can be no room for the growth of Indian commerce and industry until the British firms which are already in the field can be cleared out of the way. But, however natural such feelings may be, they might lead, if allowed free scope, to serious injustice, and partly as a consequence of this and partly for other reasons they are fraught with grave danger to the political and economic future of India. We feel real apprehension as to the consequences which may ensue, if the present attitude of mutual suspicion and embitterment is allowed to continue and to grow worse. For this reason we regard it as of high importance that the attempt should be made now to arrive at a settlement which both parties can honourably accept." (Despatch of the Government of India on constitutional Reforms, 1930.)

gets absorbed in the general flow of the life of the people. I have already indicated why the writing of a separate report became necessary. I have looked upon the problem as an Economist. The two great beacons lighting my path were an impoverished mass of people in the country on the one hand, and powerful vested interests on the other hand, both Indian and foreign. I shall be content if I have succeeded, even fractionally, in establishing a direct relationship between these two facts and in pointing out how in the economic field, the cumulative and ever accelerating action of several tendencies would be dangerous to the life of the people and to the well-being of agriculture, industry and commerce. I have tried to show on what lines "the development of banking", "protection of the interests of public", and "a sound and well managed national system of banking"* could be secured, and what co-ordination of efforts all round would be necessary.

I have pleasure in acknowledging the unfailing courtesy extended to me throughout the existence of the Committee by the Secretaries, Messrs. Ayangar and Masani, and by the Office Superintendent, Mr. Seth, and the staff under him. But my thanks for the preparation of this report are due to my personal assistant, Mr. C. V. Sankar Narayan, without whose efficient work and loyal service, I could not have been able to finish the work in three weeks.

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* *Vide* Terms of Reference.

CHAPTER II.

NATIONAL POLICY IN BANKING.

8. There have been committees and commissions in India involving the examination of economic matters in a much more restricted sense, such as public expenditure, taxation, irrigation, famines, etc. There have been others, such as on currency and exchange and railways. In these latter the divergence of Indian and foreign interests became evident and the Indian point of view differed materially from the foreign point of view.

The divergence of Indian and foreign interests was much greater in the case of shipping and it is remarkable that the Mercantile Marine Committee, which had been appointed, unanimously came to the following conclusions:—

"In other countries, which have desired to develop a National Mercantile Marine, one direction in which action has been taken to this end has been to reserve the coasting trade for the subjects of the particular country concerned."

"The coastal trade of a country is regarded universally at a domestic trade in which foreign flags cannot engage as of right, but to which they may be admitted as of grace."

"They (the opponents of Indian claims) point out that there has been no complaint regarding either the efficiency or adequacy of the services offered by existing shipping lines (British) and consider it would be a mistake to substitute for them an agency (Indian) the efficiency of which is problematical and in any case has yet to be proved."

"In any case, it seems unfair to pronounce an adverse judgment as to the ability of Indians to run shipping companies as successfully and efficiently as the present concerns, until they have been given an opportunity of owning and managing ships under more favourable conditions than those prevailing to-day. Indians have proved successful in other technical trades in which a short time back, they possessed little or no practical knowledge or experience, and we see no reason why, given a favourable opportunity, they should not prove equally successful in the shipping trade."

"What we wish to provide for in our coastal trade regulations is that after a time the ownership and controlling interest in the ship or ships for which licenses are required shall be predominantly Indian and we think that this qualification should be held to have been fulfilled if a ship conforms to the following conditions:—(*a*) That

it is registered in India, (*b*) That it is owned and managed by an individual Indian or by Joint Stock (public or private) which is registered in India with rupee capital, with a majority of Indians on its directorate and a majority of its shares held by Indians, and (*c*) That management of such companies is predominantly in the hands of Indians."

9. There seems to be a family likeness between the points urged in relation to shipping and the relation to banking, particularly in the statement of the Bengal Chamber of Commerce on this question. Their advice to Indians was—

"The soundest policy is quite clearly to concentrate all available investment of money in the sphere of economic activity from which external capital has always held aloof and will continue to hold aloof."

Commenting on this, a well-known publicist in India* says:—

"In plain language, it means that Indian capital should not be invested in those spheres, in which British traders and industrialists have already entered in India. It is needless to attempt to refute a plea so barefacedly selfish."

He further says:—

"The old and the familiar desire to safeguard the interests of Indian consumers by dumping on them cheap foreign goods and utility services is re-stated in the form of a new proposition that reservation of coastal trade will result in rise of freights to the disadvantage of Indian shippers and consumers."

He quotes with approval the Chairman of the Scindia Steam Navigation Company, who speaks the bare truth when he says that—

'"it is futile to argue with those who never fail to discover signs of India's economic prosperity in the continuous process of India's economic exploitation by foreigners in league with an alien bureaucracy."'

'"The £ *s*. *d*. have such magic effect on the British mind, that foreigners during recent months have shouted that they are Indians,—sons of the soil,—Nationals of the Country. With England as his Home, a European subject of the Crown appearing before the Indian Criminal Courts of Justice, insisting upon special benefits like those of the Lee Loot in the Civil and other Services on the ground of his colour, prestige and efficiency, always anxious to vote with the alien Government of the land not only for stifling the legitimate aspirations of Indians but also for forging new fetters,

* Mr. V. Ramadas Pantulu.

—both economic and political,—for preventing them from advancing in all directions as free citizens of a free country, it is a mockery, nothing but cruel mockery, for the European in India to claim that he is the National of the country only when his pocket is touched." '

10. I have brought in the question of the Mercantile Marine to show the parallel, as far as it goes, and to show the views on the one hand of European commerce and, on the other hand, of reputed publicists in India. With regard to the banking problem also, the position is that the field is well covered by powerful alien interests and not merely in the foreign exchange business, but with regard to the internal trade. It will be noticed that in the opinion of Indian witnesses, and indeed of a certain number of members of our Committee, the position cannot be improved unless the field for internal banking was reserved for Indian institutions. Such reservation in the field of shipping has been regarded as discrimination as it attempts at ' expropriation ' and is likely to substitute inefficient and costly Indian service in place of efficient and cheap foreign service in the staff. Echoes of these arguments were heard in the course of examination, particularly when the foreign "experts" threw in the whole of their weight against any such proposals. They did this on the ground of pure finance and pure banking, as if, in any country except in the mental laboratory of thought, pure finance could be isolated from practical considerations. The existence of an economic man and the dominance of pure economic motives, which formed the basis of certain schools of political economy, were long ago set aside in practice as well as in thought, and the idea put forward by List in his ' National System of Political Economy ' has dominated the world. Economic considerations are now taken for human groups living within geographical areas and linked up by close economic ties, much closer for the units within the area amongst themselves than for these units with any people outside the area. The idea that in essential activities, on which the welfare of agriculture, commerce and industry would depend, such as banking is, one can think merely of the service from the point of view of the bank's client and from no other point of view, is ridiculous. From the national point of view, the question of self-sufficiency, the question of correlation with other departments of economic activity, the question of investment in bank shares and the retention of profits in this country, the question of building up the necessary experience and technique in India, and, above all, the question of the helping of Indian nationals in handling the trade of their own country in preference to the help going to foreign nationals, cannot be ignored merely in favour of the consumer of a service.* The consumers' own interests in the long run require in

* "Certain fundamental differences of opinion could not be reconciled. We have therefore been compelled to avail ourselves of the right, granted in our terms of reference, to submit a separate report. We endeavoured to

the matter of all public utility services safeguards from the point of view of the community, in whose economic future he has a share. To say that India is well-equipped with banks, because there are foreign banks operating in this country, would be a symptom of that bankruptcy of national policy, from which this country has suffered in the past, and which would, if persisted in, lead to progressive economic deterioration.

11. Even if one were to take the restricted view of banking as essentially a service, regulation in the interests of the people would be justified and called for on the parallel of similar regulation with regard to public utility services. Such regulations involve not only license by some public authority, but various provisions for the protection of the public including either the maximum charge made, or the maximum dividend, which could be paid. The opposition of the foreign "experts" and of European opinion, which obviously they reflected, to the regulation of banking of any kind, would, therefore, be assessed at its proper value. There is not the slightest doubt in my mind that the opposition arose primarily from the fear that, whatever the regulation would be, it would be enforced by a national authority in India and such national authority would not view with favour the preponderating control of India's banking resources by foreign interests, the expansion of such interests, or the disabilities of Indian concerns through foreign monopoly and concerted action.

Since the bias of advocates of a national policy is in the direction of building up Indian banking and release this country from dependence on foreign institutions as well as retain both profits and experience in India, the foreigners all along the line stressed the convenience of the public from a cheap and efficient service, and the point of view, therefore, of the consumer. But they were not prepared to give their assent to regulation of banking even on a restricted basis as in the case of utility services, illustrated by the provisions of the Indian Electricity Act.

12. The Indian desire to expand a concern under Indian control has found expression not only in views expressed from the Indian Chambers of Commerce, Industrial and Commercial conferences, speeches and discussions in the legislature, but also in authoritative enquiries, such as the Industrial Commission, the Fiscal Commission, the External Capital Committee, and the Mercantile Marine Committee, particularly in the Indian minority views attached to some of the reports. Looking through this, the conclusion is unavoidable that what Indians have sought in the past has been

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take into account the specific circumstances prevailing in India and to adjust our views accordingly, but we cannot accept recommendations, which are, in our opinion, unsound and contrary to banking principles which ought to be adhered to under all circumstances and in all countries. Our conclusions are based on these principles and we cannot concern ourselves with ambitions or desires of a political or nationalistic character."—(Foreign "Experts" Report.)

a fair field and opportunity to come in on terms equal to those enjoyed by the foreign business,—a fair field, where foreign business will not strangle them by unequal competition,—and the desire to retain the profits of different kinds of enterprise in this country. It is also noticeable that as a rule behind these aspirations, both in the matter of opinion and expedients, programmes and policies already attempted and acted upon in foreign countries were kept in mind, and support was derived from national action, wherever possible in the United Kingdom, and, failing that, in other countries.* The whole trend was against the open door, against free trade in the form of free and unrestricted opportunities, even preferential opportunities to foreigners, against the suggestion that the field was equally open to the Indian, who laboured under many handicaps. The gravamen of the complaint expressed in the Indian point was that there was no national policy, that, without a deliberate national policy and without the creation of the atmosphere, in which Indian enterprise could prosper, the outlook was hopeless for the growth of Indian enterprise. It is stated that the denial to Indians of a reasonable chance created the hated phenomenon of exploitation. Advantages exist in operations in India in the nature of things for British enterprise, both against the Indian and against all foreigners. But, where such advantages were increased by the adoption of a national policy, such as protective tariffs, etc., Indian opinion soon developed the demand for reservation and for preferential rights for Indians. It also led to suggestions for restriction against the activities of foreigners in India and for a discrimination in favour of the Indian.

13. Banking, which is after all one department of business enterprise, cannot escape the particular application of these views held in India very generally, and while I am not quoting extensively

*" To sum up, the integration movement in Empire banking is explained by the dominance of London in the Imperial financial organization. The position of the Imperial banks, controlled and capitalized from London, is thus to some extent vindicated in the economic sense, though it does not afford much consolation to Nationalist feeling in the Dominions, which in South Africa at least is distinctly favourable to the creation of more local banks. In the later stages, the movement has led to the direct control of Imperial Banks by the great English institutions, but this development brings few unknown difficulties essentially different from those already experienced in the nineteenth century and up to the present. Connections existed when the Imperial Banks first began to operate in London, nearly a century ago, and perhaps the most important difference at present is not that the connections are firmer and more numerous, but that they are more obvious. The Imperial Banks have in the Empire, on the whole, a long and honourable record of public service, and if objection is felt overseas to their incorporation in larger English banks, the remedy, either in the creation of more local banks or in the more strict local supervision of the existing institutions, is at hand. From the regulatory provisions of a well-drafted local Bank Act (now long overdue in India, Australia and Africa), the Imperial Banks have nothing to fear, and the Central Banks, the only essentially new factor in the position, will find it difficult to exercise fully effective control over them while they depend upon London so largely as they do at present."—(" The Imperial Banks," page 261, Baster.)

from sources indicated above in support of the proposals, which I have made, I have thought it necessary to point out that the proposals are in my opinion in the main the application to the field of banking of the general principles of policy, which have been consistently indicated in views of Indians on this subject. They are only modified by the peculiarity, which banking has in contrast with other enterprises, but I conceive the importance of national policy in banking to be greater than in other fields of enterprise, as banking is really the key to most enterprises. It is the machinery, by which savings get mobilised and distributed both with regard to the factor of time and with regard to the factor of space. A weak and defective banking system has proved disastrous for countries with highly developed enterprise in other directions. Failures of banks affect many enterprises and many more men in the community directly and indirectly than failures in any other individual industry. If the ground for urging a progressive national policy and close vigilance on Indian interests against the competition they may have to bear from foreign interests either working in India or abroad, are valid in the field of any particular industry, they are infinitely more important as applied to credit institutions, to which all enterprises in agriculture, trade and industry look up for their finance.

14. The rejection of the proposal for shutting out Indian deposits from foreign institutions was advocated by the foreign "experts" on the ground of pure banking. I will not be so uncharitable as to suggest that it was rejected, because their respective national interests would suffer. I would accept their explanation that when they came to India and looked at Indian problems, they could only look at them in the region of pure finance and that it would have required from them more than ordinary imagination and understanding to place themselves in the position of Indians and to suggest measures on national grounds. Such a proposal had been made to them by more than one member in the course of their examination, but their reply invariably was that they were not concerned with any ground other than those of pure banking. Their position is intelligible, but I have had considerable difficulty in understanding the position of the Indian members of the Committee. If the proposal for the prohibition of deposits in foreign institutions, which had the support of almost all Indian witnesses, who appeared before the Committee, were turned down by them as unsound, an alternative or modified proposal might have been expected from them. When the proposal, however, comes to be rejected on the ground of pure banking, the position needs some examination.

On pure banking grounds the co-operative movement in India would never have been established, assisted financially, subsidised and encouraged in every conceivable manner. Nor would any one have ventured to suggest further concessions and newer forms of encouragement. The movement came into existence, because it was

conceived to be essential in the interests of the Indian nation and for the economic welfare of Indians. In the same manner the industrial corporation suggested in the majority report, and the scheme of an exchange bank, in which the state will subscribe either all or some shares, and to which the state will give the monopoly, would be altogether indefensible on grounds of pure banking. As a matter of fact they were condemned on these very grounds by the foreign " experts ". Similarly the encouragement of branch banking in India by the subsidy, which the Imperial Bank has enjoyed, and the suggestion for the continuance of such subsidy not only to the Imperial Bank, but to other banks in future, were also definitely censured by the foreign " experts " on grounds of pure banking and have been nevertheless thoroughly endorsed by the majority Committee. The need for the majority directors in a banking institution being Indian, for controlling interests in a banking institution in India being in Indian hands, for branch banking in the interior being confined to the Indian institutions, for the control of the Reserve Bank of India being in Indian hands, and for a share of the financing of foreign trade being in Indian hands, was not dictated on grounds of pure banking. All these suggestions were rejected by the foreign " experts " on these grounds and yet got a varying measure of support in the Committee, because, there is something beyond pure banking, which every one will readily recognise. The Indian control of the Reserve Bank was accepted by even representatives of European interests as an assumption that was reasonable to put forward and which it would be most unreasonable to oppose. There is, therefore, something beyond the pure banking considerations, something which has a reference to the economic life of the country, and the calls, which the economic welfare of the country makes on individuals as well as on financial institutions working in the country. The immediate good is sacrificed and is set aside for the ultimate good. The direct interest of the individual is interfered with and set aside for the indirect good of that individual as a part of the community. Private interest is subordinated to public policy and the larger interests of the community. In forging a weapon, where individuals acting on their own cannot make a headway, the state forges a weapon of sufficient forte, and these collective activities often cause interference with the private and individual concerns, who have to put up with them. Individual rights, sacred and important as they are, come through and behind the rights of the nation operating through the state and through the law. Such is the foundation of national economic policy. Either India must have this, or perish.* Only foreign " experts "

*" Indian banking must pass through a series of changes before a suitable type is evolved. This type would evolve only when national commerce, national industry, and national agriculture with national fiscal policy are evolved. When is that to be? On the contrary, infanticide of banking is at present apparently looming in the legislative chambers."—(Lala Harkishen Lal in the Introduction to the " Organization of Indian Banking " by Thakur.)

could tender the advice on the basis of pure banking, but a Committee set up by Government under the direction of the Indian legislature could not do so. It is because I have conceived my duty in this light that I have shown the temerity of putting forward suggestions, which are largely based on financial grounds, but not entirely.

CHAPTER III.

POSITION OF THE CULTIVATOR AND THE NEED OF A POLICY.

15. The economic position of the agriculturist has been examined by the Royal Commission on Agriculture. Whether the average agriculturist is running it as a business to secure a return on his capital and on his labour, or whether he is there because there is nowhere else to go and it is his mode of living, and he has no option except to live as best as he can, is a moot point. There is much reason to induce belief in the second description. The agriculturist has all the risks of the operation on himself. His crop is not insured, his cattle is not insured, his domestic and other labour supply is subject to all the risks, to which individual family life is subject. If a large number of city population were not making remittances to agricultural districts, if a large amount of savings from operations other than agriculture was not being drawn in for purchases of land, for loans and advances, or for gifts to farming members of the family to enable them to tide over, perhaps the position of Indian agriculture would have appeared even worse than it appears now. I have no desire to exaggerate the picture, but it is essential to dwell on it from the point of view of the community. While every man's occupation is his own, the community has yet a direct interest in the results of that occupation. Those, who produce not only the food of the community in India, but a large exportable surplus, by which this country is enabled to meet obligations abroad, have the first claim on the attention of the community as a whole and of the state as the chief executive acting on behalf of that community.

I do not wish to deprecate what the state has attempted hitherto, or to detract from the merit of what good work the co-operative movement is doing in various parts of the country, what good and capable zemindars are doing in other parts of the country, and the beneficial effect, of the extension of irrigation. But the danger is that all good work gets discounted, where the progressive rate of deterioration is high. It is desirable that the balance of advantage should be in the direction of improvement and not otherwise. This is so important from the point of view of the nation that there should be no room for doubt about this. Hence the justification for the various apparently bold and direct measures, which I have suggested. I shall only complete this dark picture by sounding a note of warning, that progressive deterioration in the agricultural districts might bring about, particularly in a bad year, socio-economic consequences of a dangerous character. The most potent forces of disorder and anarchy in the world have emanated not merely from bread riots of urban unemployed, but from agrarian distress carried to the point of desperation.

16. *Surplus.*—The problem of rural credit can hardly be considered without the economic condition of the agricultural producer

being taken into account. The main question is, whether in his present condition he is pursuing agriculture on the basis, that, after paying the revenue and the expenses of cultivation including his livelihood on a meagre standard, there would be anything left. The answer to this question would differ in different parts of the country, and it would be different with regard to each individual farmer according to the nature and extent of his holdings, the nature of his crops and the nature of his land. It would further depend on the ruling prices for the commodity, which he produces, and the manner in which he is able to dispose of, or market his commodities.

Up till now the analysis is on the basis that he is not in debt.* On this basis, therefore, the surplus, which a man would have over a series of years on an average, would constitute on the one hand his profits. It would constitute, in the event of the actual farmer being a tenant-at-will, the rent. It would be the basis of land value according to the prevailing rate of interest on long term investments, though in India, opinion, both official and non-official, would tend to show that, either on account of land being considered an attractive method of investment, or, on account of there not being any other suitable mode of engaging funds, the capitalisation of the economic surplus from land takes place at a very low rate. Land has been known to yield to new purchasers as little as two and three per cent. and the economic motive in this case would be difficult to establish, unless it were for the belief of a continuous rise of land values over historical times, as well as the premium, which land enjoyed over other forms of valuables, when investment in the modern sense of the word was not known.

17. It is this surplus, on the strength of which the value of his land is based, that the farmer relies upon both for incurring his debt and for repaying it. It is that, which sets the limit to his borrowing power, and it is that, which also determines his ability to repay. The money-lender in India, from whom the agricultural producer receives accommodation, does not probably make actuarial calculations and he may not be averse to making the best of his opportunity *vis-a-vis* his debtor, who is usually in a weaker condition. The money-lender has to make his living and he has to take

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* The figures of debt-free cultivators are given by some of the Provincial Committees as follows:—

Province.	*Percentage free from debt.*
Assam	Varying from 9 per cent. to 38 per cent. in different districts.
United Provinces .	Varying from 33 per cent. to 61 per cent.
Central Provinces . .	Varying from 14 per cent. to 72 per cent. in the case of landlords and from 13 per cent. to 70 per cent. in the case of cultivators.
Bihar and Orissa . .	Varying from 19 per cent. to 21 per cent.

My colleague, Mr. Mukhtar Singh, who comes from the United Provinces and whose knowledge of rural conditions is considerable and first hand, seriously questioned the reliability of the U. P. figures. The internal evidence from the figures of Bihar, where conditions could not be widely divergent compared with U. P., would also lead to the same conclusion.

the solvent with the insolvent debtor. The period of repayments is not usually specified. Often new loans are incurred, while the old ones are not paid off. The most important factor, however, is the rate of interest.

If it were possible for any district or smaller area to actually ascertain the economic surplus, which the farmer has, or could be expected to have over a series of years in relation to the amount of interest, which he has to pay, the proper economic factor could be seen, *viz.*, whether most of the surplus is not absorbed by interest charges.

18. It is difficult to say whether this is so generally, but there is no doubt again from such impressions as the Provincial Committees have been able to form, that a certain section of the agriculturists is in this condition. The economic consequences of this condition may be examined. They would be as follows. The loan is not getting smaller. If there are any failures of crop, or other misfortunes, or even unavoidable domestic obligations, the loan might then tend to be bigger. The increase of debt may be then rendered possible by increase of land values, or by adventitious circumstances like proximity to a railway line, or improvement in transport, which may bring in more money to the cultivator, other factors remaining the same. In either case, the chances of the debt being repaid are often small. The option remains to the creditor to keep the thing going, or to foreclose. He may choose to keep the thing going, as he may have already recouped himself to the full extent of his outlay calculated on a reasonable interest. He is bound to regard whatever comes to him every year as a new permanent source of income created by him, and the lender may be also loth to incur the unpopularity unavoidably involved in foreclosure and ejections. Foreclosure itself would mean the need for finding a new tenant, or for finding a purchaser. From the point of view of the lender, this will be the position, but, from the point of view of the borrower, the motive for economic production will be gone. The desire to improve the land by putting in not only all the labour, but also a little more capital, however infinitesimal, it may be, will not be there. If more is produced, more will be taken by the creditor.

19. Whether it is a large portion of the cultivator's debt, which has reached this position, or whether it is a small portion, there is at present no means of saying, but even if it affects a small portion, its existence is most undesirable from the point of view of the community. The community is interested in larger production, which constitutes the food for the community, which offers freight to the railways, and which becomes the subject matter of trade. The community's interest is also in improved land, which can bear, when administrative needs arise, the burden of taxation. Nothing is more destructive of economic welfare than the pessimism and the hopelessness of a situation, when a man does not feel that any part of the reward for his labour will come to him, but that the whole of it will be swallowed up by somebody else.

I have argued later for the need of the reduction of the interest charges payable by the agricultural community. It may appear I have done so needlessly, but the object was not only to point out the desirability or the urgency, but also to demonstrate that the community is vitally interested in this. It is not merely for the good of the man, who will get cheaper credit, but for the good of the community as a whole that it becomes imperative to do something. No stronger ground for state action could be found than in the situation portrayed here. There will be those, who will from their direct local knowledge, point out that in their districts the position has not reached this limit in many cases. The only reply to this would be that, if the position has not been reached, there is the danger that it may be reached before long. Prevention is better than cure. Whether it may be, therefore, regarded as a belated remedy, or as wise precaution against a menace, the need for energetic action is indicated.

THE DANGER OF DELAYS.

20. In the consideration of remedies for an economic evil, in India, the details are undoubtedly important, but the supreme need is of clearing the atmosphere. An inertia of ages hangs on questions of the economic improvement of the cultivator, which are beset with many difficulties. People have become adepts in this country in the art of evading or postponement of the essential reform. It is either considered too late or premature, or it is stated that it does not take account of varying conditions in different provinces, or there are administrative difficulties, or it goes counter to the provisions of certain laws. Inconvenience to the upper classes raises its head in connection with these discussions in many forms. Sometimes the question of cost is raised, and on the ground of additional cost the matter is turned down. The question of cost is important, but could generally be ascertained with reference to the benefits secured. Where it is raised without any reference to such a benefit, it is liable to suspicion. Many economic changes in society occur for the worse without effort on the part of anybody, but it is rarely that economic improvement comes about without conscious effort. Is there a will to secure the necessary reforms with a view to preventing further rot in the economic condition all round? Is this will confined merely to social reformers and to a few publicists, or is it generally to be found amongst all those, who think on these subjects? Is it further only seen in the legislatures, or is it to be found in governmental machinery at the top? The failure of several measures by Government initiated at the top may be found in the apathy and lethargy of the agency of Government at the bottom. There are thus many causes, which can lead to the continuance of the present drift and to the frustration of any reform. The main thing, therefore, is to secure a better atmosphere, to secure a better knowledge on these subjects and to devise programmes, which are complete in themselves, instead of isolated measures, and, above all, to put the obligation for watching the

progress of these measures definitely on the shoulders of responsible parties.

NEED OF AN AGRICULTURAL POLICY.

21. The Committee in their discussions came to the conclusion that measures for improving the credit of the cultivator would have to be accompanied by other measures. Their conclusion is embodied in the following terms:—

"Credit alone cannot help the agriculturist. The other factors to be considered are:—

1. Removing the existing impediments to efficient production.
2. Lowering the burdens of taxation.
3. The fiscal organisation of the country and in particular the assistance to agriculture by tariffs and subsidies.
4. The economic organisation of the industry and in particular the development among farmers of methods of purchase and sale and co-operative insurance.
5. Instituting of schemes for the improvement of land, livestock and crops, elimination and control of pests of plants and animals, provision of power and other assistance to industry subsidiary to agriculture and developing afforestation.
6. Organising the transport system of the country with due regard to the interests of agriculture.
7. Establishing a system of sound general education and special provision for agricultural education and research and for embodying the results of such research within the practice of the agriculturist.
8. The developing of state or voluntary organisation to provide the necessary central and local machinery for carrying out measures of agricultural policy and for influencing that policy.

The active pursuit of a progressive agricultural policy is necessary for the purpose of fostering profitable agriculture under modern conditions."

It is not possible to elaborate various measures, which would help the agriculturist, under each of these heads, without straying outside the field, to which the discussions of the Banking Committee should be confined, or without running into volumes. A progressive agricultural policy in a country can, however, only be a part of a larger economic policy. Policy means the absence of drift. Such a policy has also to be national in the sense, that the economic needs of the population in India should rank as the first, second and third object of that policy. To the spirit of a proper economic policy, the adoption of isolated measures here and there tinkering with the system is repugnant. Reforms on paper proclaiming good intentions towards the agriculturists do more harm than good by diverting attention and by weakening the spirit of

vigiliance. If agriculture is to be a profitable industry, all elements of costs would have to be examined, all avenues of leakage would have to be closed up and wastage eliminated. The maintenance of law and order, which is at the foundation of social life, is of course important. Next to it, perhaps, is a system of education and literacy, by which the ideas, which the cultivator is expected to absorb for his benefit and to improve his work, could reach him. The system of tenure involving the relation of the cultivator to the State on the one hand, and to intermediaries, who exist between him and the State, on the other hand, would also have to be examined. The economic aspect of such relationship where it becomes relevant to this enquiry is examined later on.

22. With regard to No. 2, in the above list, *viz.*, lowering the burdens of taxation to be borne by the cultivator, the question of land revenue would undoubtedly have the place of honour, but there are other impositions. In this connection I would like to make a reference to the fact that some of the money, which the cultivator pays, does not go into the pockets of the State, but goes to swell the profits of private parties, who fix the price without reference to the cost of production. This happens in the case of kerosene, an article now universally used by the rural population. Nature has given kerosene to India in bulk, but the hand of man has interposed barriers. Anti-trust laws operate in other countries, but in India a close examination of monopolies, price fixation, cartels, pools and other devices, by which the consumer is hit, is rare. The Indian Electricity Act permits of maximum charges being fixed in the case of licensees for the lights of the urban population, but the charges for the lighting of the poor at present are unregulated. As I said before, these are topics arising only incidentally in our enquiry, but there was a general agreement in the Committee that there are matters, which need looking into.

23. With regard to item No. 3, fiscal arrangements by tariffs and subsidies, the agriculturist has hitherto come into these discussions negatively, *i.e.*, at the time when fiscal arrangements were urged in the interests of industry, he has been mentioned as a consumer, whose interests need be protected. It is not recognised that it is the cultivator, who is the principal producer in India, and as the principal producer, he has more paramount claims on the attention of the State in his capacity as producer. In Brazil there was the coffee valorization scheme when there was an excessive coffee crop and the price of coffee went down. The United States Farm Board has many functions and many powers and it has been known to use them in the case of staple commodities like cotton. At any time of crisis, the agriculturist should receive attention. The principle has already been recognised in India in the recent wheat bill, but it has again come as an isolated measure. The plight of the crores of cotton growers and growers of oil seeds was equally bad, but has gone unrelieved, because in the armoury of the State there was not a weapon ready. Assistance to agriculture by means

of tariffs, bounties and subsidies has never been definitely accepted before.* I should have much liked to dilate on the principles, on which this can be done and should be done, but as that would take me out of the main discussion, on which attention should be focussed in our report, I would recommend that a close examination of this should be secured as early as possible. I would recommend that Government should immediately secure detailed information as to what has been done in other countries on this subject and institute a close enquiry into this to enunciate general principles capable of application without delay, when a situation justifying their application has arisen.

24. With regard to item No. 4, the problem of supreme importance in Indian agriculture is that of the size of the holding. The willingness and the capacity of India to solve this problem will be the test of true greatness both for the Government and the people of this country. I say this, because two opinions do not exist with regard to the prevalence of this evil. It is recognised and acknowledged by all that holdings get smaller and are scattered. It emanates from the examination given to this subject by the Provincial Committees, that the evil is on the increase, that the resulting sizes of the holdings are not economic, that it is difficult to help cultivators, who have small strips spread over many places,—strips, which collectively do not constitute an economic unit, *i.e.*, a unit, to which they could have applied their own labour and the use of their cattle and implements so as to secure the best possible return. A vast amount of land is lost in intermediate 'bunds'. When strips are scattered, time is lost in movement. The same improvement could not be extended to the various strips. Nor can they be effectively protected against depredations of man and beast. The problem is thus twofold: to secure a compact holding for the cultivator on the one hand and not only to prevent further splitting up, but to secure a consolidation, if necessary, in order to maintain a minimum economic size. Measures towards this end cannot be suggested by the Banking Committee. It is in this connection that I should like to repeat the wise words of the Royal Commission, who said that legal difficulties should not be allowed to override economic considerations. What is most required towards a solution of this problem is strength and not futility. It is, therefore, surprising that in India, where the Government have the reputation of being a strong Government, this evil has persisted and has increased. The Indian cultivator is too ignorant to know that such reforms have been carried out in other countries, that they are intended for his good, and that he should acquiesce by co-operating without any fear of being treated unfairly. With the problem of credit improvement, the question of holding is directly tied up. Nothing spoils the record of rights so much as little holdings. The security value of these little strips of land is much less than when the land is compact. Every other im-

* Lord Curzon did rattle the sword against bounty-fed sugar from the continent but no policy was evolved.

provement in the method of cultivation would be discounted, if further fragmentation were allowed to go on. Economically, the problem of consolidation would be, so far as the State is concerned, to make the necessary advance to the cultivator for the excess value of what is added to his holding. The other problem would be to make provision for a certain number, who would be dispossessed and who will be thrown out. The State in India has some waste lands in certain provinces, and if there was a will, the second problem could certainly be solved by colonisation schemes, transplanting the dispossessed cultivators to the new areas and giving them the necessary initial assistance to be on their legs. I cannot reconcile the increase of fragmentation with the existence of ministries of agriculture both in the provinces and at the centre, until the difficulties are authoritatively sifted and declared.*

25. With regard to item No. 5, the matters have been dealt with at length by the Royal Commission on Agriculture, and they do not require any specific examination in this regard. The point relating to industries subsidiary to agriculture deserves some remarks. The cultivator has much time during certain periods in the year, when he and his family have comparatively little to do. He cannot use his time profitably. Where there is more than one crop and in the irrigated area, this time is by no means considerable, but it is a grave economic loss in other areas.† If there was a demand for his labour, he could turn his labour into money, but he could not initiate things on his own, which would be useful either to himself or to others. He cannot start on any activity, which he can turn into money. The desideratum is that the item, which he could handle, should be such as does not require any special skill. In the districts of India growing cotton, the obvious way out is spinning. It has made progress in various parts of the country, and labour, which is a perishable commodity if it is not immediately used, has been put to good account by these means. For this purpose also public opinion is necessary, and the supply of clean cotton as well as the utilisation of the yarn produced becomes essential. This is an important way out, in view of the fact that next to his food, clothing is a necessity to the cultivator, and if there was an organization, which would supply cotton and which would exchange yarn for cloth on a definite basis not unfair to the cultivator, it would be a godsend for him. In this, as in all other measures taken, the fullest co-operation of the official class down to the village official is wanted. So long as that co-operation is lacking, conditions cannot improve. Several Provincial Committees have suggested schemes of rural reconstruction. Several of them have detailed the organisation of such schemes.

* It is to the credit of the Minister of Agriculture in Bombay that a bill for the consolidation of holdings was introduced. It was, however, very surprising that in Bombay, which is the one province, in which the Government have, ever since the introduction of the reforms, consistently enjoyed a majority in the legislative council on all issues, on which they wanted it, this measure was thrown out!

† It is suggested that he is occupied for 200 days only in the year.

This successful introduction would depend on the sacrifice and willing guidance given by many officials and non-officials at the top.

26. In the transport system of the country, the railways naturally take the lead. With regard to the railways, the outstanding fact from the point of view of the cultivator is the level of freight charges. Freight charges are monopoly charges and in the case of the railways, it has not yet been made clear that they are public utilities, from which the State wants to make no profit, and that the charges have been fixed on the basis of the cost of service. That this cost of service could be reduced is the feeling in many quarters. Freight charges, which were raised in India after the war, have not been universally brought down, though they have been reduced in the case of certain articles and with regard to certain industries. The percentage of these charges to the price of the agricultural products during the boom has heavily increased with the fall in their prices, and they fall directly and completely on the agriculturist, because, the price, at which he has to sell his produce, is generally the wholesale price at the principal market less the charges, of which the most important is the freight. If the agriculturist goes off from food to commercial crops, he has to bear more freight over the commercial crops and also some freight over the food crops, which he imports for his own consumption. The railways thus stand to gain, but the cultivator is not helped in the extension of commercial crops by any rebates on this account. Many other anomalies would be seen, if railway rates were closely examined from the point of view of the cultivator. They have not received such an examination and the recent request of the Indian Central Cotton Committee and the Federation of the Indian Chambers of Commerce that freights should be reduced, was turned down on the plea that it could not be done. Differential rates imposing a heavy burden on imported food and raw material moving to the interior, and a cheaper freight on food and raw material going out to ports, I have found, have formed the feature in railway policy in other countries in the world, but to my knowledge they have never been discussed in this country. The suggestion that railways exist for the benefit of agriculture and industry of this country is one, which would be pooh-poohed in high quarters. There are many essential adjustments, which are wanted, and so long as they are not secured, improvement in agriculture, and therefore, in the credit of the cultivator, would continue to offer difficulties.

Landlord or tenant.

27. Where an agricultural policy is enunciated, through whom is the salvation of agriculture to come? Is it expected that the landlord will improve the lands, will increase production, and bring prosperity and should, therefore, be assisted in every possible way, or is it that the improvement of the land is to be secured through the improvement of the economic position of the tenant or actual cultivator? There seems to be some doubt on this subject

and a material difference of outlook, as will be seen from the following quotation from the Royal Commission on Agriculture:—

"The complaint that the larger landlords do little for the development of their estates on modern scientific lines is a very general one and the honourable exceptions to be found in every province are too few in number to do more than throw into relief the apathy of the majority. In their defence, it may be pleaded with some truth that, in some provinces, the system of tenure or the tenancy law restrains them from obtaining unrestricted possession of a compact area and, in others, prevents them from securing a full and fair return from the proceeds of their enterprise. Questions of tenure have been expressly excluded from our terms of reference but we would suggest that, where existing systems of tenure or tenancy laws operate in such a way as to deter landlords who are willing to do so from investing capital in the improvement of their land, the subject should receive careful consideration with a view to the enactment of such amendments as may be calculated to remove the difficulties. * * * They should be actively encouraged to stimulate the interest of those who hold land under them in the value of improved seed, implements and stock. The reply that the increasing prosperity of the tenants which may result therefrom would not be reflected in any increase in the income of the landlord is difficult to counter but, where the existing tenancy law imposes obstacles to progress, which were not contemplated by its framers, the case for review gathers force."*.

India has a clear choice and will have to make that choice. Are legal changes for the improvement of the credit structure to be made in favour of the landlord or the tenant? While there may be something to urge against any sudden or wholesale displacement of the intermediate holders, the bias of witnesses and the basis of the examination by the Central Banking Committee on these questions, have been on the whole in the direction of strengthening the position of the actual tiller of the soil. The Committee came to the conclusion that it was desirable to remove all restrictions which interfered with the power of the tenant to transfer his land.

IMPROVEMENT OF RURAL CREDIT.

28. The Bombay Committee have enunciated a very important principle in connection with their recommendation dealing with inalienable Inam lands.† The principle is that, if Government, by law or otherwise, put a restriction on the transferability of land, which makes it impossible for such lands to become the basis of credit, Government should simultaneously undertake the obligation to provide the finance, the securing of which they have rendered extremely difficult, if not impossible. They also formulated a very far-reaching principle in the following terms:—

"When land is held by an inferior holder on terms which prevent him from raising money on its credit, either the superi[illegible]

* Paragraph 358 of Report of Royal Commission on Agriculture.
† Recommendation No. 165, paragraph 250.

should finance the inferior holder or should stand as surety for loans which the latter may obtain from co-operative societies."*

Is it possible to compel a landlord to finance the improvement of land in the hands of his tenant? Is it possible to induce such landlord to stand as surety for loans by the tenant? While there may be exceptions everywhere, I have very grave doubts about the feasibility of either of these proposals. I, therefore, believe that the path of agricultural improvement lies in strengthening the position of the actual tiller of the soil and in giving him the motive for more exertion and for improvement, in making his rights in the land so secure, that he would have both the desire and the ability, which, owing to his present economic position, he seems to lack.

No loophole, which might be used in many places to evade the demand for such legislation, or to delay its accomplishment should be left. There are vested interests concerned with the position, which the actual cultivator now occupies. These interests would profit from the continuance of the present position directly and indirectly. In the Central Provinces it has been pointed out that restrictions on transfer enable the landlord to get hold of the lands of his tenants very cheap. In Bengal, there is the pre-emption and salami, which have the same effect as in Central Provinces, and worse. Since the cultivator will still borrow, complicated and restricted laws of this kind tend to raise the rates charged for borrowing and also add to the volume of litigation.

29. Apart from the question of restrictions on transfer, there is the question of title in land. The question of transfer arises only when there is something valuable enough to transfer to somebody else, who will be willing to pay for it, or lend on it. There is in every province a large number of those who actually till the soil, whose rights in respect of the land, on which they are working, have no value for sale, and therefore none for raising credit upon. These cultivators need finance just the same as any other cultivator, but they cannot get it. They can get it only on the crops and crops being the only security, which they are free to give, a loan transaction would be mostly accompanied by binding arrangements with regard to the manner and method of sale and would, in some cases, lead to lower price being received than if the cultivator had economic independence. When the cultivator has so meagre a title in the land, the rent and other charges, which he has to pay, will usually be worked up to the utmost limit and the prospect of a surplus to him will be small. The prospect, therefore, of the land being either cultivated intensively, or being improved economically, will be small, and the cultivation will have to be confined to that portion of the land, for working over which the cultivator can scrape enough money. This is a position, which is most undesirable from the point of view of the community as well as from the point of view of the actual tiller of the soil. It is a position,

* Recommendation No. 165, paragraph 250.

however, which cannot be cured without some disturbance of acquired hereditary rights of superior holders. There is probably no problem connected with agricultural credit, more difficult to handle than this. Ownership of land and zemindary rights have become subjects of purchase and sale. They have been capitalised at the return expected and actually received. The present holders are not in all cases, or in many cases, hereditary successors of the original holders. They are the economic successors. They are *bonâ fide* holders, who have invested their savings in the form, which has been commended and considered attractive. They might reasonably claim that they have a right to the protection of the state against any suggestion, which would deprive them of their present position under the present law.

30. In the matter of deprivation by third parties by unfair means, the claim of landholders would be absolute and unanswerable. But the situation alters, when the question of adjustment is taken up by the State in public interests. The existence of a healthy and prosperous cultivator class is of importance to the community and the intervention of the state becomes essential, though ostensibly what is put forward is the welfare of the tenants. The cultivators after all are a class, who are active and who are seeking from the state protection to the fruits of their own effort less their contribution to the State in the form of taxes. The landholding class, on the other hand, are seeking the frozen fruits of previous efforts. In their case, it represents savings, but it also presupposes that in their case savings were possible. The curtailment of the enjoyment to savings comes about both from the direct action of the State and from other causes. Interference with the direct return to one's labour is much more reprehensible, and altogether, the grounds, on which the actual cultivator can claim more tangible right in the land, which he is tilling, are very much stronger and deserve greater weight and consideration in the policy of Government.

31. I realise that the fundamental principle of property is here involved, but the origin of all properties is not crystal pure. While this is well-known historically and while it is realised that properties are in their origin mostly based on suitable opportunities, which were utilised by original parties, in social arrangements it is not the injustice involved to property owners, which prevents changes, but the indirect reactions to the social order. Violent disturbance of acquired rights, however unfair they may have been in their origin, is not desirable and in practice would lead to no end of trouble. The repercussions will be felt very far and sometimes in unexpected quarters. I am not, therefore, making a proposal for immediate and wholesale expropriation of all rights of classes intermediate between the actual cultivator on the one hand and Government on the other. But, where futile survivals have accumulated, where the rot has proceeded very far, and where the forms have swamped the substance, it is helpful to go to fundamentals for the restoration of an economic equilibrium.

Clean sweeps are undoubtedly dangerous, but if economic needs are not taken into account and if adjustments are not made in time, the demand for clean sweep would come in an overwhelming manner. Societies, that were not warned of this danger, have suffered in the past. The argument of having acquired the right may be used for moderating reform but should not be used for negativing it.

32. The practical measure that I, therefore, recommend is that the Minister for Agriculture in each province should forthwith get particulars of the nature and class of tenures in lands and should institute reforms beginning with those cultivators, who have the most limited rights. The tenancy at will is the inevitable accompaniment of absentee landlordism and is the curse of the community. It supports one set of people, who are active, absolutely at the margin and therefore in misery, and it supports another set in comparative idleness. There may be many actual and local variations between these two extremes. There may be many exceptions to this rule. Stated in this form, it undoubtedly appears as a prelude for a wholesale socialistic policy, but it need not be that. It is with the object of a timely and reasonable modification of a feudal organization of society. It is not suggested that the actual cultivator should be forthwith declared to be absolute owner subject to the taxes. That would be an act of wholesale expropriation and would come under the class of violent disturbance of a social order, of which I am not in favour. But I would go in this direction as far as it is possible with safety. I would oppose every suggestion that it is not possible to go in this direction. The spirit of the various tenancy laws, which Government have themselves passed, would point out that it was considered desirable to adopt various measures. My complaint is that these measures have not gone far enough and also that such measures have not been effective. The existence of a considerable number of cultivators in the position of tenants at will points to the existence of an evil on a serious scale. The question of land tenure does not arise directly in our reference and cannot become a subject matter of any recommendations by us. I shall, therefore, content myself with the remark that, amongst the active members of the society, the actual cultivator of the soil in India holds an important place and in many cases he has no rights in the land, which he cultivates, which give him a sense of property, which form the subject matter of sale and purchase, or on which he can borrow. The problem of financing such cultivator, except with the hand to mouth seed advance in kind and small seasonal loans, which he manages to get on the strength of crop hypothecations, is impossible. For improvement in land, such cultivator would have no motive and the owner may have either no knowledge and no resources, or no desire to invest those resources in permanent improvements.

33. The financing of agriculture can only be improved, when the agriculturist has been placed on a stable basis. From the credit point of view, his basis at present is in several cases very unstable. Until the improvement of the cultivator, regardless of acquired

rights of parties above him, becomes the first object of state policy, the improvement of banking with a view to secure larger finance for agriculture will remain a distant and elusive goal.

The law in practice has set up in many places the principle of finality for many purposes. This is a principle in the case of the law of limitation, and this is the basis behind insolvency laws. Intermediate classes derive their title either as rent collectors or as actual cultivators. If they have ceased to exercise their rights as actual cultivators, by parallel reasoning involved in the law of limitation, their rights should cease sometime or the other. In their position as revenue farmers, the extent of the right should be limited to a fraction of what Government will get, or, in the alternative, to a reasonable cost of collection over the revenue factor applicable to any particular locality. Their rights as investors by purchase stand on a different footing, but the purchaser and owner of every asset takes with him also the risk of gain and loss. Where such gains have occurred through no exertion of the owner and through the change in the economic conditions of the community as a whole, the propertied classes have pocketed the gain. Where the reverse occurs, not through malicious designs or expropriation by anybody, or even by the state, but as a result of well-planned programmes for improving the economic conditions of the community as a whole, it would not be correct for them to squeal. If the intermediate owners were putting in a large amount, or even considerable amounts out of the rents received by them in the improvement of the land, there would be a great argument in their favour and for minimising the disturbance to their rights. This may be the case in some districts in India, but we have found it recorded in the reports of several Provincial Committees that landlords are gradually acquiring more land. The surplus of such landlords is being devoted, therefore, to their expansion horizontally, instead of to the improvement of the land. A state of affairs, therefore, does exist, which wants a radical remedy. It is better to devise this remedy by forethought and deliberation and to introduce it in the gentlest possible manner than to leave the evil until things break out on their own at an unexpected time and in an anti-social and disorderly manner.*

34. Restrictions on transfer appear to be based on the principle that the owner must choose a tenant, with whom he can get on, and should not have an undesirable party foisted on him. The right of an uncultivating owner in this direction does not appear to be based on too solid a foundation. It is not the right of a factory owner to select his labour. The landlord in such cases has the preferential right to rent. He leaves the risks of the operation on the cultivator. He shares not in the risks, therefore, of the cultivator, nor his vicissitudes. His concern is with the amount of rent and not with anything else and so long as he receives this, he does not trouble

* Madras Estates Land Act dealing with permanently settled lands (Act 1 of 1908) embodies the policy of removing restrictions on the transfer of land by the tenant.

himself with the life and travails of the cultivator. He has no right to interfere with the economic standing and the position of the cultivator, the parties with whom he has to deal, and particularly with the borrowing power, which he should have and which he should exercise unfettered.

In business parlance, such a party is in the position of a sleeping partner, who is not a sharer in the loss. He is not even a sharer in profit, but holds the first charge on the gross incomings regardless of whether the business is profitable or not. In commercial business such a party would not have any rights, and trade and industry could not be carried on, if a very large number of them were encumbered by prior interests of this kind. If a counter suggestion were made that no landlord should transfer his interest by sale or otherwise except to a party approved of by the tenants, many sound arguments could be adduced in its favour.

35. The reasoning followed in this chapter is that the economic position of the agriculturist has got to be strengthened by various measures, which would give him a surplus, that he can call his own. It is on the strength of such surplus that the cultivator would secure, by measures foreshadowed elsewhere in this report, the necessary credit to finance him both for long period and for current purposes. A definite agricultural policy and a general economic policy calculated to improve the position of the cultivator, would not be effective, unless his position against the landlord is made secure and is strengthened, wherever it is weak at present. The welfare of the community lies in securing the welfare of the actual cultivator. All obstacles in his path are also obstacles in the path of effective measures to ensure suitable credit at cheap rates to be made available to him.

CHAPTER IV.

VOLUME OF INDEBTEDNESS AND OTHER BURDENS BORNE BY THE CULTIVATING CLASSES.

INDEBTEDNESS.

36. The existence of indebtedness in rural districts and by the cultivating classes is a commonplace in all discussions about them. When the Provincial Committees were appointed, it was expected that they would be able to make reliable estimates of such indebtedness. Some attempt at making these estimates has been made and the results are as follows:—

Province.	Total Rural Indebtedness.	Remarks.
	Rs.	
Bihar and Orissa	155 crores	Made up of 24 crores debt of landlords. 129 crores of debt of ordinary tenants, and 2 crores others. (B. & O., para. 90.)
Madras	150 ,,	This includes both the rural and urban debt. It has been stated that it would take an unreasonable amount of labour to distribute the debt between the rural and the urban areas. (Madras, para. 98.) Mr. Thomas thinks that the information gathered is quite insufficient for estimating the total indebtedness.
Bombay	81 ,,	The figure has no pretension to absolute accuracy. (Bombay, para. 49.)
Bengal	100 ,,	About 62 crores represent long-term debt. (Ben., para. 129.)
Burma	50 to 60 ,,	The estimate does not pretend to be accurate. (Bur., para. 102.)
The Punjab	135 ,,	....
Central Provinces	36 ,,	Made up of landlords' debt 6 crores and cultivators' 30 crores. (C. P., para. 628.)
United Provinces	124 ,,	Includes also the debt of agricultural labourers of all kinds. (U. P., para. 201.)
Assam	22 ,,	For Plains districts. (Assam, para. 33.)
Central Areas	18 ,,	Includes about Rs. 3 crores each for Delhi and Ajmer-Merwara.
Coorg	35 to 55 lakhs.	(Madras, Volume VI, paras. 36—37.)
Total	876·45 crores	

* References in this column are to the Reports of the Provincial Banking Enquiry Committees.

The methods employed for estimating rural debts were as follows:—

(1) By ascertaining the actual indebtedness of a sufficient number of individuals sufficiently widely dispersed over a province and deducing the total debt therefrom.

(2) By ascertaining the volume of secured debt, *i.e.*, mortgage and pronote debts, from the statement of debts registered in the Registration Department and deducing the total volume of unregistered debt by a formula of the proportion of secured and unsecured debt to the total debt of the population obtained from some special investigations in a number of villages. This method is used as a check on the figure obtained by other methods. Other checks commonly used are the proportion between debt and land revenue, debt and value of crops, etc.

(3) By ascertaining the indebtedness of members of rural co-operative societies and assuming that the "Co-operative population represent the Indian agricultural population".

37. The Committees themselves have expressed doubts as to the reliability of the results secured, on the following grounds:—

(1) Many agriculturists have no clear recollection of their liabilities and many are averse to disclosing facts.—(Bom., para. 45.)

(2) Amounts mentioned in registered documents are not always found correct and many mortgages are disguised as sale deeds.—(Bom., para. 45.)

(3) There is no source of information regarding repayment; the books of money-lenders are neither available nor reliable.—(Bom., para. 45.)

(4) In view of the large number of non-agriculturist intermediaries, it is difficult to determine what proportion of registered debt is borrowed by agriculturists and what proportion by non-agriculturists.—(Ben., para. 84.)

(5) The time of the year when the statistics are collected affects the estimate.—(Madras, para. 92.)

(6) The Madras Committee say that it is not possible to make an estimate of grain debts.—(Madras, para. 103.)

(7) It is difficult to ensure that the agency employed for collecting the statistics is everywhere competent and able to secure the confidence of the individuals questioned, or that the individuals are a fair sample of the population under survey.—(B. & O., para. 81.)

I could point out many other grounds, which vitiate the results secured from these figures. Nothing is more misleading than statistics, which being arithmetically expressed create an idea of

accuracy and conceal the defect, however glaring it is, of classification of different meaning attached to the terms used, and the errors in collection. One has further to allow for motives for exaggeration or understatement either of the parties giving the figures, or of the officials collecting the figures. Apart from the general precaution in the use of statistics, there is, in the case of these debt figures, the difficulty that they represent all contracts and at the figure on paper, relating to all parties. Since there are superior rights in land between the actual cultivator and Government, the mortgage transactions of all the parties concerned, would appear here. They would further appear at the figure in the original mortgage without any reference to accumulated interest on the one side, or to the repayments made on the other. There is no means from their figures of ascertaining the security, which is behind the total debt, or whether the security is adequate, or whether some of the borrowers are not already insolvents.. The debt figures further do not represent in all cases the amount, which the lender expects to recover, or will recover, or can recover, nor again the amount, at which the creditor may be willing to settle.

38. A quantitative estimate of the debts of the cultivating classes is of great importance as an indication of the amount of money, which the lenders have engaged in this class of work. Such an estimate would further indicate where the average rate, at which this debt stands, is either known or assumed, the burden of interest charges, which is borne by the agriculturists. A reliable statement of the indebtedness of the cultivator would give indication as to the extent of banking expansion in the country, which would be necessary, to supply the needs to the extent to which they are supplied at present and also the creation of additional credit for supplying the needs, which remain unsatisfied at present.

In the matter of indebtedness, if it can be ascertained, it will be most useful to know whether the total amount of debt is going up or going down. The Royal Commission on Agriculture say on this subject: " It is more than probable that the total rural debt has increased in the present century; whether the proportion it bears to the growing assets of the people has remained at the same level, or whether it is a heavier or lighter burden on the more prosperous cultivator than of old, are questions, to which the evidence we have received does not provide the answer."*

39. On this subject it is a pity that the Central Banking Enquiry Committee have also to leave the matter at the same stage, *viz.*, there is no means of knowing whether the total indebtedness is increasing or is diminishing. If there is a considerable doubt with regard to the absolute figure of debt as at the present moment, any estimate as to what the debt was some years ago would be open to a still more doubt. I would, however, like to point out a very important factor in connection with the phenomenon of

* Report of Royal Commission on Agriculture, page 441, paragraph 368.

indebtedness. Even if the total amount of debt had not increased, and if it remained the same, I would infer that it has increased, because the Provincial Committees' Reports indicate in many places that transfers of land are going on and that certain classes are getting more and more land. Mortgage decrees and the sale of land under mortgage would be a prelude to such transfer and there is considerable evidence with regard to that. The heavy indebtedness of the agriculturist, when it exceeds the realisable value of his land, leads in most cases, but not in all to foreclosure and the new owner starts on a clean slate. If new debts were not, therefore, contracted, the total amount of debt must *ipso facto* go down. While it is difficult to show whether the debt is increasing in the absolute, the opinion of all shrewd observers appears to be that the total overload of debt has not diminished. The views of the Royal Commission on Agriculture on this subject are worth examining. "The predisposing causes which lead to debt are now well understood; the maintenance of law and order, the defining and recording of rights in land, the continuous reduction in the proportion borne by the land revenue demand to the produce, the rise in the value of that produce and the growth of transferable rights in land have all contributed to enhance the credit of the landholder. The rapid development of commerce and trade, the introduction of established law and permanent civil courts and the enactment of such measures as the Contract Act have strengthened the position of the money-lender. His capital has been swelled by the accumulating profits of his business, which has been extended by his own thrift and intelligence. The general expansion of credit has provided scope for the investment of his savings and has averted that competition from his fellows, which might otherwise have forced down the rate of interest."*

These were the views of shrewd observers, but in my opinion they are bristling with controversy. No useful purpose would be served by entering into that controversy here. Much historical material would have to be introduced in ascertaining whether things have on the whole moved in the direction of increasing the borrowing power of the man, who cultivates. It will be noticed that I am using the words "the man who cultivates", instead of the word "landholder", which, with commendable caution, the Royal Commission have used. The word "credit" is obviously used in the above quotation not as capacity to borrow, but as actual borrowing. The Royal Commission has referred to the rise in the value of produce and to the smaller portion, which land revenue charges bear to the gross produce. The agriculturist is, however, concerned with the surplus, which is left to him. In regard to his own livelihood, it would be a surplus after paying not only all costs of cultivation, etc., but interest and other dues. For the purposes of his credit, however, it would be the value of the land based on such surplus and on the capitalisation at rates at which

* Report of the Royal Commission on Agriculture, para. 432.

assets are capitalised. Another very important factor to consider is the amount of wastage in the capital of the money-lending classes. Moneylending as a profession is constantly receiving new recruits and sending off old ones either by migration to urban towns or by trading, or by permanent loss. The paper rates of interest and the real interest realised have also to be considered. If the fertility of the land in India is giving out, if the pressure upon land is increasing*, if the number of mouths to feed is greater, if the surplus, which the agriculturist can get hold of after selling his produce, has become smaller in amount, or has reduced purchasing power,—if, in short, there is a general deterioration in the condition of the agricultural classes as a whole, those who are bankers to the agricultural classes, not in the western, but in the eastern sense, cannot but be affected by this. In the eastern sense loans are not always fully secured and, while pressure is employed, public opinion reduces the rigours of that pressure. Patience and helpfulness have been noted by the Provincial Committees, as well as by the Royal Commission on Agriculture, in the lender in India, whose desire is to continue an old debt and get what he can, when he can, rather than have a clean out and start a new account.

The resources of moneylending in India, which are bound up with the resources of the community, could not therefore increase, if the community is going down. Statistics of income-tax, on which some reliance appears to have been put by the Royal Commission, would be misleading as it may indicate an improvement in the income-tax administration and not necessarily in the income taxed. The whole subject is thus shrouded in the same mystery, in which it was when the Banking Committee was appointed. This is a pity. I have barely enumerated the various factors affecting the problem, which has to be left where it is for proper and detailed elucidation by somebody hereafter.

BURDENS OF THE AGRICULTURIST.

40. The search for the total volume of indebtedness of the agriculturist and its two components, *viz.*, the debt for seasonal finance and the debt for a longer period, is to be made for the purpose of devising a suitable machinery for the supply of credit and for debt redemption, but, when secured, such statistics would serve another purpose. They would disclose facts, to which the attention of Provincial Committees generally does not seem to have been drawn. As these facts raise economic issues of the utmost importance, and as these issues are vitally connected not merely with the general economic welfare of the cultivating classes, but with the immediate problem, which our Committee has to look into, of the possibility and methods of securing credit for them, I think reference to them is necessary.

* "The crowding of the people on the land, the lack of alternative means of securing a living, the difficulty of finding any avenue of escape and the early age at which a man is burdened with dependents, combine to force the cultivator to grow food wherever he can and on whatever terms he can."—(Report of the Royal Commission on Agriculture, page 433.)

LAND REVENUE: RENT: INTEREST.

41. The charges, which the cultivator has to bear and to defray out of his produce before he can count up his own gains, are land revenue, rent, interest and redemption on prior debt. In framing the provincial questionnaire with regard to indebtedness and the rates prevalent, it was intended that some reliable estimates should come forth with regard to burden of interest charges borne by the cultivating classes. These expectations have not been fulfilled. Progress on these lines may, however, be expected from the Boards of Economic Enquiry, which every Provincial Committee has recommended.* Though the precise figures are not available, there are very important principles underlying this, to which I should like to refer. The land revenue collections all over India have been put in round figures at Rs. 35 crores. The burden of interest charges cannot be estimated on the figures given. Some of the figures include short-term financing, some of the figures are counted twice over, and some of the figures would include urban mortgages. Various other reasons indicating the unreliability of the total debt figures have been shown in paragraph 37. In the opinion of my colleague Mr. Mukhtar Singh, who has brought on the subject a close and personal knowledge of agricultural conditions, the debt figures were an under-statement. On the other hand, the actual interest charges paid, whatever the agreement may be, have also to be deduced from a bewildering variety of figures different for each locality, each condition, and each borrower, as, after indicating the margin of error, one must proceed as far as it is possible to go. It may be stated for the purpose of a very rough calculation that the burden of interest charges paid collectively by the cultivating classes would have to be put at nothing less than Rs. 100 crores, and perhaps much more if the price discount were taken into account. Though it would vary for different parts of the country and for different classes of land, it would thus come to something like three times the land revenue.

The rent payments do not arise directly, but they affect not only the standard of life of the cultivator, but also his capacity to borrow. They also come out as the first charge from the produce, which results from his activity. They are the gross payments, from which land revenue is being paid, wherever the cultivator is not in direct relation with Government. Even in ryotwari tracts, much sub-letting is going on. Over thirty per cent. of the lands are not cultivated by the occupants themselves. It is a pity that no estimates were available of the total amount, which the cultivating classes pay in respect of rent, and, therefore, the total net burden, which they bear in addition to land revenue payments. It has been stated that about 53 per cent. of the lands in India is under the ryotwari system, and in 47 per cent. there is an

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* The experience of several kinds of Boards set up in this country under official aegis, has been so disappointing, and the costs have been so heavy and the results so negligible, that it would be disastrous, if the Economic Boards are also set up on the same model.

intermediary between the cultivator and the state. To this would have to be added the sub-letting in ryotwari areas, which is on the increase. The proportion of land revenue to rent has been the subject of many discussions, and in connection with the protection of the tenant against rackrenting, attempts have been made to find a formula of maximum rent payable. As many conditions affect the rent, these attempts have not fructified anywhere, but an interesting fact in connection with this may be noted. A private Bill was introduced in Madras, which did not take progress, in which it was sought to fix the amount of maximum rent payable by the cultivator as not more than two and a half times the land revenue. As land revenue itself would come out of this payment, it would give the relation of 100: 150 and it would show that an intermediary, would take from the actual cultivator one and a half times as much as is taken by the state. I have not discovered any convincing details on this line of enquiry by any Provincial Committee. I am myself inclined to think that, wherever there are intermediaries, though the conditions would vary enormously from place to place and from man to man in view of different kinds of tenures and productivity, the burden on the cultivators would be much greater than is indicated by the proportion of 1 : $1\frac{1}{2}$. As measures for the amelioration of the cultivating classes generally, of which improved credit is only one, could not be effective until these facts are understood more clearly, and as revenue officials would be in a position from facts in their possession already, supplemented if necessary by local enquiry, to help, I recommend that every Provincial Government should get an estimate of the excess over land revenue payment, which the actual tillers of soil have to bear in payments to all intermediate parties put together between them and the State.

42. I am aware that there have been many discussions in this country with regard to the burden of land revenue, rent and interest charges. These discussions had been conducted in the past with some heat and with the desire to explain many things and to apportion blame. Many controversies have hung round these questions. Many prejudices and sentiments have been involved. It would mark, therefore, a progress of economic thought, if greater attention were paid to the ascertainment of economic facts as they are. I shall not, therefore, dilate here on the fact that land revenue charges are, as matters stand in India to-day, the smallest of the three main charges, which the cultivating classes as a whole have to defray, and I shall not go into the allegations that the land revenue policy has through its inelasticity, led to debts which have now cumulatively grown. Nor can one probe here into the question whether the payment of rent is a burden and whether the burden has increased and has become unbearable. The search for causes is very important. It is important to the historian, who has to explain the phenomena as they emerge in succession. It may be a useful field for research. The search for causes is also important in devising remedies. But, from this point of view, the materials placed before the

Central Banking Committee by the Provincial Banking Committees were somewhat imperfect.

In the economic field, whatever the origin of the cause may be, subsequent adjustments take place. Things do not work out always as they were intended to be worked out by those, who introduced economic measures. In order to secure this vigilance, which alone would serve this purpose, there is need of public opinion amongst those, who are affected by the measure and of timely protest by them. From the economic point of view, these are the severe limitations of benevolent direction from the top. The examination of the question, as far as has been carried on by the Provincial Committees, has, however, elicited in the remedies suggested much valuable material. The position of the agriculturist in relation to the burden, which he has to bear, and, therefore, his capacity for raising money required to enable him to carry on efficiently, needs to be examined here. I shall not go into the question as to why he should bear these particular burdens, but these questions are bound to be asked. It is necessary that they should be asked, provided they are raised not for a clean sweep, but for securing essential reforms.

43. From the point of view of the cultivator, much of the rent payments represent frozen interest, and much of the interest payments represent frozen rent. This would be true about interest, particularly where the debt is of long standing and where the heavy rate and the indirect levies have already secured to the lender the return of capital. The cultivator is not concerned with those, to whom this payment reaches. He can only think of the burden and his capacity to bear the burden and the consequences to himself when he cannot bear it and he is ejected. Thus in land revenue payments there was inelasticity in the past and one would expect the position to be better, now that rules have been framed for suspension and remission. Several Provincial Committees recommend further modifications to suit the needs of the cultivator, particularly the collection by instalments, and also regard to the time when the cultivator must part with his produce. In the payment of rents, there are different conditions in different places, but severity in collection has been known, even when the cultivator is unable to pay. The relation of landlord and tenant, both on the good side and on the bad side, has been the subject matter of literature, both serious and official, and otherwise. Similarly it has been accounted as a merit as well as a sign of great wisdom on the part of the village Mahajan that he takes what he can and when he can, but in his collections he is not unmindful of the condition of the debtor. He has the advantage over Government of direct local and personal knowledge. Elasticity in collection of all charges, which the cultivator has to pay, is necessary and all measures leading thereto recommended by the Provincial Committees should be examined by Provincial Governments for adoption. It is not with a view to encourage laxity and irregularity, but because in the nature of agriculture itself, the uncertainties of nature attached to the operations, the

uncertainty of markets, and the fact that moneys are receivable by the cultivator not by regular instalments, but when he has disposed of his produce, that considerations involving elasticity of demand become necessary.

43A. Other important considerations in connection herewith are those, which involve a review of the burden, which the cultivator has to bear, or its adjustment to a changed situation. Under what conditions enhancement should take place if at all, and how the burdens, which the cultivator has to bear, could be based on equitable grounds, is a subject, which may be just indicated here. The relative position of the various demands on the cultivator, which have to come out first from his produce, raises in one word the general question of distribution, as it is used in economic science. The question may have to be examined when statistics indicated above are available, not from the point of view of the justification of what the cultivator is called upon to pay under the three heads, but from the point of view of whether the cultivator can continue to pay these and yet remain an efficient producer. I would, therefore, recommend a close examination of all measures, which have been recommended by various Provincial committees, as calculated to reduce or to limit the enhancement of what is payable by the cultivator to the State, to the landlord and intermediary, and to the money-lender. That these questions are correlated cannot be denied, since, if great efforts are made to secure a reduced rate of interest and thus to increase the rate of surplus in the hands of the cultivating classes, this surplus will not go to the improvement of the standard of life, or the improvement of agriculture, if it is promptly annexed wholly or partly in enhanced charges payable by him in connection with land revenue or rents. Enhancement of land revenue or rent, on the other hand, materially reduces the security, which the money-lending class as a whole has, on account of the absolute priority of these charges. The reduction of this security must tend to increase the severity in collection and to higher rates.

44. From the point of view of the cultivator, ejection for non-payment of rent, where he is a tenant, and ejection under a mortgage decree by the moneylender are the same. The measure of injury to him is not different, whether the injury is caused through one agency or another. Census figures show the increase in landless labourers and this has been considered a calamity, because the industrial organization of the country has not as yet expanded enough to absorb them. I have not seen this question examined in all its economic bearings. It has been discussed under the mobility of labour, with which it is no doubt connected. The question to ask is, what is the measure of economic distress, which is inflicted on a cultivator, who is thrown out of the land, which he cultivates, for any reason. There is the humiliation in the society, in which he has passed many years. There is little or no local demand for hired labour, which will absorb him and his family. He loses his independence. He is not used to the wage system. He does not know where his labour may be wanted

and may be paid for. Even if he comes to know that there is demand for labour, he does not always possess the necessary skill, even the minimum skill, which, what are called the unskilled labourers have, in the simple operations, which they are called upon to perform. Even when he gets the wages, the cost of living in the place, where he has to shift, is high, and under conditions envisaged, *viz.*, ejectment, he would lack the wherewithal to reach those places, where there is demand for his labour. No machinery exists at present for securing either the necessary information or for enabling surplus labour in the villages arising from this or any other cause to reach the centres of employment, or for enabling men thrown out in this manner to tide over the intervening period. Large gaps in the economic organisation of the community as compared with what obtains in other countries, would be visible, if this topic were carefully looked into. I am here concerned with the main question, *viz.*, what is the measure of economic harm to the community, when an efficient cultivator is thrown out of his land? If the land lies fallow, or the cultivation is done by a less efficient party, the community stands to lose much. With his change of status, the morale of the ejected party is affected and until he gets active again in some remunerative work, he is a burden on somebody. Legislation has been passed in various places securing protection to the cultivator against this contingency either by restriction of the transfer or in other ways. Such legislation has been justified as being in the interests of the cultivator himself, presumably because he must be saved from the consequences of ejectment. I think, in the economic interests of India, measures would have to be adopted of both kinds, measures leading on the one hand to improvement of agriculture at the hands of the cultivator, and, on the other hand, to strengthen him in every possible way as an efficient producer. That such measures would not be wholly successful and that ejectment, involving a change of status for the cultivator, could not be avoided altogether, shows the need of other measures in the direction of improving the lot of those who are rendered landless. Amongst this class come all the measures recommended by the Provincial Committees to enable the agriculturist to secure supplementary income by subsidiary industries, in which he can devote his surplus time and energy, and those that are aimed at securing the setting up of rural industries and industries in rural areas. One set is calculated to give strength to the cultivator, while he is still on the land, and the other, to expand the scope for employment generally, so as to minimise the economic distress from ejectment.

45. The Provincial Committees have examined the causes of debt in different directions. Such an analysis is useful. They have further attempted to get some idea of the purposes for which the debt was incurred. Since neither the lender nor the borrower keeps separate accounts of short-period and other debt, much light cannot be derived in this direction. Where the debt is incurred for improvement of agriculture in a manner, which will increase the gross output, such as the sinking of a well, it stands on a

different footing, but the examination of the question by the Provincial Committees discloses that the proportion of such debt to the total is small; for the rest, whatever the purpose may be, once the debt is incurred, the economic consequences are the same.

Another question examined by the Provincial Committees in this connection is the sources of the loans. The infinitesimal portion of the total accounted for by Government loans would show that credit goes to Government more for intentions than for achievement. This examination is of importance, however, in showing the amounts derived from the co-operative movement and from other sources. The prominent position of the Mahajan as the universal financier in India for agriculturists is brought out, and this points to an acute need of strengthening the resources of this class and of improving the conditions, under which they work.

The Provincial Committees have further attempted in some cases to estimate the requirements. As I have stated elsewhere, these estimates are defective. Proper estimates will have to be based, on the one hand, on the amount of total agricultural production and, on the other hand, on the value of land, which is the pre-eminent security apart from the crops. The Bengal Provincial Committee, in estimating the burden of rural debt in Bengal, have very properly brought in this important criterion. They say: "Unfortunately, in Bengal there is a large body of intermediaries between the cultivator and the State, having varying interests in land. Leaving them out for the moment, if we assume that the whole of the cultivated land in Bengal, *viz.*, 23 million acres according to the return for 1928-29, valued at Rs. 300 an acre on an average, belonged to agriculturists, their property was worth 690 crores of rupees. Thus even if a liberal allowance is made for intermediaries, the Bengal raiyat is far from insolvent." The method of reasoning is correct, but it is for Bengal economists to test the conclusion and to say whether the Bengal raiyat with a total debt of Rs. 100 crores (possibly an underestimate) including Rs. 62 crores of long term debt, is far from insolvency and can be helped without radical measures. It is not merely in order to test whether the amount of credit raised at present is heavy, but in order to see how much total volume of credit would be required, that the value of possible securities, against which such credit can be raised, should be considered. It gives the necessary limit in thought and would be a very great corrective, to all those enthusiasts for different measures already adopted, such as Government loans and the co-operative credit movement, who dwell more on what has been done than on what needs to be done.

"If the mortgage bank is needed as a weapon against the Sahukar, in time it will be doubly needed against the agricultural moneylender. Without its protection there is a danger that, despite the Land Alienation Act, the expropriation of the peasant may begin again on a large scale. There are already possibilities in the Western Punjab, where the large landlord is taking advantage of the Act to add to his acres at the expense of the peasantry." ("Rusticus Loquitur" by Darling.)

CHAPTER V.

RURAL CREDIT; IS THE SUPPLY ADEQUATE ?

46. The following extract from a statement by Sir Daniel Hamilton before the Chamberlain Commission throws useful light on the problem and is still substantially a true picture.

" The great want, or what I may call the fatal defect, in Indian banking is that it makes absolutely no provision for the financing of the great industry of the country,—agriculture. Two hundred and fifty millions of the people of India are directly dependent upon agriculture, and yet the gigantic industry has hitherto been left to the tender mercy of the small money-lending capitalist. There are Presidency and Exchange Banks and other financial conveniences for the trader, but the most important man in the country, the man upon whom all India depends, the man without whom neither the trader nor the banker nor Government could exist, is left outside the reach of cheap money. The producer, when he wants to borrow, as he always does, has no security but his labour and his ungrown crops to offer, and as he is already practically insolvent, and may die before his crops are reaped, he has to pay for his finance whatever price the man with the money chooses to ask. Trade cannot increase unless produce increases and produce will increase in exact ratio to the inducement offered to the producer. If the producer has to pay anything from 25 to 100 per cent. for his finance the inducement to produce is wanting, for it means that all he makes over and above his bare living goes to his creditors. The secret of successful industry is to buy your finance cheap and sell your produce dear. The Indian buys his finance dear and sells his produce cheap. His creditor generally fixes the price of both. The ryot feeds the financier in the fat years and the Government feeds the ryot in the lean. Trade flourishes on the labour of a bankrupt people, for three-fourths of the people of India are unable to pay their debts. The country is run by a system of forced labour, the force being that of the moneylender. Ought Government to look on in the good years and watch a large portion of the surplus gold buried by the small minority, or ought it to intercept all the gold it can for the benefit of the people?

" We see in British India to-day 250 millions of people living off 250 million acres of land. All the wealth the people can ever hope to have is what each can get out of his little one-acre patch and the patch grows smaller as the years go on, for the population increases, but the land does not. If the people of India have only this to look forward to, is it not absolutely essential that they, and

not their creditors, should reap the harvest which they sow? but they never will reap it while the present financial conditions last. Government is now making great efforts, and rightly, to improve the agriculture of the country, but unless the people themselves are to get the increase resulting from their labour the efforts of Government will be very largely in vain. Improved agriculture and improved finance must go together. It is the organisation of its capital that India wants more than its increase. There is plenty of capital in the country, but it is mainly in the wrong hands,—the hands of the non-producers. The greatest economic problem before India to-day is how to shift the control of capital from the hands of the non-producers to those of the producers of the country's wealth and until that problem is solved we shall look in vain for much progress. * * *

"Within the last few years a number of new banks have come into existence; but they have not the resources at their command to finance the agriculture of India, even if they were to cater for that business. It is not lacs of rupees that a business of this magnitude requires, but hundreds of millions sterling, for, large though the external trade is, the internal is greater still. The financing of 250 millions of Indian agriculturists who are now out of the reach of cheap money, is a big problem, and wants something big in the way of banking."

46-A. The idea of securing for the agriculturist accommodation at reasonable rates and on reasonable security is an old one. Several schemes were put forward before the Famine Commission of 1880, but were rejected. In 1882, Sir William Wedderburn made a proposal, which involved "a liquidation of existing debts with the assistance of Government and then the establishment of a bank to take over the claims of Government under the liquidation scheme and to make further advances to the people. The bank, after taking over government claims, was to be entitled to recover its dues as land revenue." The scheme was turned down by the Secretary of State, but the discussions in connection therewith brought on the statute book in India the Land Improvement Loans Act in 1883 and the Agriculturists Loans Act in 1884. "These measures differ greatly from the previous schemes in that private management and any attempt at wholesale clearance of debt are entirely absent."

Public opinion in India has always expressed itself in favour of a big enough measure to deal with the question of agricultural credit. Thus Sir Dinshaw Wacha, before the External Capital Committee of 1925, said:—

"Simultaneously, it is also essential that India should possess agricultural banks, with their kindred auxiliaries or feeders in each province of the Empire, say, with a capital ranging from 2 to 5 crores at the outset. Such banks should be modelled broadly on the lines of the Agricultural Bank of Egypt, so beneficially fostered

by the late Earl Cromer. Of course, the local conditions of each province will have to be taken into consideration. Co-operative Central Banks may serve the useful purpose of fertilisers to each Agricultural Bank."

The Royal Commission on Agriculture, analysing the need for long-term loans, praises the working of the Dawson's Bank. " It depends mainly on first mortgage security and furnishes a good example of what can be accomplished by private enterprise in an area in which harvests are secure, land valuable and readily marketable, and competition limited. Its chief interest for our present purpose lies in its resemblance to what appears to be the popular idea of an agricultural bank, except that it is entirely independent of official support."*

The preference of the Royal Commission for private enterprise in this field is obvious. Dealing with the Agricultural Bank of Egypt, the Royal Commission say: " Facile credit once again proved itself to be a grave danger to those unaccustomed to its enjoyment. The bank had not sufficient machinery to examine the suitability of applicants for loans, nor, indeed, did the duty of examining any security for loans lie with it. Over-borrowing and the squandering in unproductive expenditure of the money borrowed, soon brought their accustomed penalties."*

It is not obvious whether the blame in Egypt lies more on the borrowers than on the lenders. If the bank could not examine the suitability of the borrower, or the security offered, it must fail. After all, on the economic side, the foundation even of the co-operative movement is, that there is some selection with regard to the borrower and at the time of the establishment of the society, there is some examination of collective assets, on which loans are given out.

" In fact, cheap credit is a blessing to a rural population only where the average cultivator is possessed of the knowledge and strength of character required to induce him, on the one hand, to limit his borrowing within the range of his capacity to repay, and on the other, to apply the greater part of the borrowed money to sound productive purposes. To lavish easy credit on those unaccustomed to its proper use is to condemn the borrowers to certain financial destruction."

47. The warning uttered by a body of men, such as the Royal Commission on Agriculture was, could not be ignored, but I want to show that to some extent the Royal Commission have stopped short of their process of thought in the financial analysis. To some extent, they contradict themselves. Even while they were condemning the Egyptian experiment and assistance to agriculture by large funds from the state, the Agricultural Credits Act of 1928

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* Royal Agricultural Commission Report, paragraphs 356-357.

was launched out in the United Kingdom, involving substantial concessions and large sums from the state.*

Having examined this question a little further, they come to the following conclusion: "The obvious alternative to a system of loans from the state is the land mortgage bank."

With regard to land mortgage banks, the Commission found that: "Such limited experience of land mortgage banks as is available suggests that the loans taken from such banks are much less frequently used for land improvement than they are for the redemption of old debts."†

We had before us in evidence the fact, that even where debts were redeemed, and the burden was reduced, regularity in the payment of the instalments, which would go to pay interest as well as to reduce the debt, was not observed. Obviously in direct relationship with the borrower and the bank, the experience so far tends to point that the results would not be satisfactory on either side. Hence my suggestion for the intervention of the guarantor on lines put forward in paragraph 76.

48. The grave danger of facile credit, to which the Royal Commission draws attention, and from which they presage certain financial destruction to borrowers, needs to be examined with reference to the proposals, which I have made. It is quite true that moneys borrowed on mortgage may not be used for land improvement. It has been found difficult, in spite of very drastic rules, to ensure that Government loans under the Land Improvement Loans Act are used for improvement. Similar complaints have also been heard in connection with the co-operative societies, where the control ought to be easier. If the money lent out could be followed up, it would be an excellent thing, but in practice there is a limit, to which such control can be kept. The alternative would therefore be either to deny credit facilities altogether, and by this means to eliminate also the dangers of wastefulness through credit, or to give maximum facility and to trust that, with the growth of education, a greater portion would be devoted to land improvement.

The financial destruction of the borrower, however, merits a closer attention than has been given to it by the Royal Agricultural

* The Agricultural Credits Act of 1928 led to the constitution of The Agricultural Mortgage Corporation, Ltd. in England. The Act gives various powers to the Corporation, including the power to create a general charge. Leading banks have participated. Government will advance up to £750,000 free of interest for 60 years, for constituting a guarantee fund. A further contribution of £10,000 a year towards current expenses is also mentioned. Government would assist in under-writing debentures up to £5,000,000 and would itself subscribe up to £1,250,000. The debenture stock of the Land Mortgage Bank is made trustee security. The rules, under which the Bank may make advances, are framed and it is provided, amongst other things, that advances must not exceed two-thirds of the estimated value, and the redemption period should not exceed 60 years.

† Report, paragraph 360.

Commission. The evil of a heavy burden of debt has been put forward in lucid terms by them:—

"The existence of a heavy burden of debt of this character exercises a most detrimental influence on agricultural progress. This is due not only to the fact that an important source of credit is drained for unproductive purposes and that the potential credit available for improvements is correspondingly curtailed, but also because it is found that, in the case of usufructuary mortgages, the mortgagor too often declines to the position of a permanent tenant under the mortgagee, paying, not a fair rent, but the utmost the lender can extract or extort."*

Where a man is already carrying an overload of debt, the creditor can act in his own interest in many ways. In such cases, it is not the question of beguiling the unsuspecting borrower into treacherous regions of facile credit. The object of state policy should be to extract him from the morass of heavy interest rates, semi-slavery and helplessness, and lead him to a position of solvency and freedom from debt. The substitution of a debt at a lower rate than the existing one would not create the danger until several instalments go towards capital redemption and enlarge the field of available credit on the same security. No doctor would, however, refuse to give the prescription for improving the condition of the patient, through the fear that the patient might lapse back into the same state of malady.

49. If I am criticising the finding of the Royal Commission, it is not in order to go counter to them but in order to show that the wise words of caution uttered by them should be taken into account. A further analysis shows, that measures could be devised after assigning due weight to them. Every new facility in the world gets abused, and for parties, who have really something to bororw upon, it has not been suggested anywhere in evidence before us that the moneylender will not lend. On the contrary, it has been said that the more substantial the cultivator who desires to borrow, the more anxious is the lender to create a good client, to whom he can lend safely, and without much enquiry. It has further been shown that often the moneylender is anxious to hold on to an old mortgage document even after partial repayment has taken place. He wants to save the expense of further document and to sit on a larger measure of security than would be available on a new document. He is, therefore, more lavish in accommodation under such circumstances.

So long as the cultivator is left free to borrow from outside sources, the utterance of superlative caution against facile credit, even when the sources are organized at the top and work under carefully devised rules and periodical accounts and examination, causes confusion and is not helpful.

How far acts specially devised to restrict credit in the interests of the improvident cultivator have not been successful, could be

* Report, paragraph 352.

seen from the reports of Provincial Committees. In intermittent economic measures success, however, could hardly be gauged and often there is much room for self-delusion to the legislator and the administrator, that they have done something to the best of their ability and with the very best intention, and yet in practice just the parties, for whose benefit the measures may have been conceived, may suffer. The substitution of cheap credit for dear credit, other factors remaining the same, cannot harm the borrower, where the debt is already incurred. To what extent high rates, at which moneys can be raised, are deterrent to cultivators, who intend to borrow, has not been shown anywhere in our evidence. Emphasising the general principle that they must be deterrent and that they must be less attractive than if borrowing could be done at a cheaper rate, would not be correct in the conditions of Indian agriculture. The cultivator borrows obviously for things, which are in his opinion absolutely essential to him. His borrowing may be divided in three classes: for redemption of old debts, for social occasions, and for purposes connected with the land, *viz.*, permanent improvement, seeds, manure, current expenses, etc.

50. The expenditure of the Indian agriculturist on social purposes has been much noticed, but I have to advance an economic justification for his action and save him from an intolerant reproach. When tradition fixed the ceremonies and the accompanying feasting and outlay going with the ceremonies, it fixed them on a reasonable basis and within the reach of the average party. If the economic condition of these classes weakened faster than the social change and adjustment could come, the burden of these observances might increase. It is possible,—and this is a topic for economic research scholars to ascertain,—that a hundred years ago this programme did not prove to be as much out of the reach of the average cultivator and as costly to him as it is to-day. Money economy and the general rise of prices compared to the old days and the larger use of items not locally grown or produced might have made a considerable difference. All classes in the world would find it difficult to adjust themselves to a condition of falling wages, and if there is a parallel between that condition and the process through which the Indian cultivating classes are passing, the Indian agriculturist deserves sympathy and not reproach.

Expenditure on social occasions is an unavoidable charge everywhere in the world and could be only condemned where the expenditure is out of proportion to the economic capacity of the party. In India social and other customs often compel a man to spend on a certain scale, even if his means are below the average. This can only be improved through education, enlightenment and social reform. Except in isolated cases and for these purposes, the idea that at cheaper rates the cultivator will borrow much more than he is doing now, cannot be supported. Whenever he can borrow, he does so whether the rate is fair or high. Freedom from debts is a question of prestige. When the tide turns the other way, the agriculturist has some money of his own. He adds much to his prestige

by lending it out. Excessive stress on the lack of thrift and habits of improvidence of the Indian agriculturist has been the result of those broad generalisations, in which the foreign observers of this country have indulged. Improvidence amongst rural sections has been the theme of writers from the dawn of the organization of human society in all countries. But in India foreign criticism had to be accepted and deferentially passed from one authoritative official document to another, and it gradually acquires the dignity of a postulate and the sanctity of a truism. I am referring to this because of the vicious implication that, so long as the Indian cultivator remains improvident, cheap and facile credit is dangerous for him. The improvidence of the Indian cultivator arises from the fact that he is an Indian cultivator, grown up under Indian social traditions and under a lack of education after 150 years of British rule. Neither of these conditions in his case can be removed quickly in a day. If, therefore, the organization of the necessary credit structure for him is to wait till this time, that organization will never come. The only exception, which official pundits have made to this restrictive line of thought, is the co-operative credit movement. On the advantages and limitations of this, I have dealt with in paragraph 95. It is outside the co-operative movement for the large body of cultivators, who, if willing to come into the movement, are not taken, or, who, with the unexpected exercise of caution and enlightened self-interest, see the dangers in the collective liability, which the co-operative movement involves. A few lakhs of rupees lent out every year in each province by way of Land Improvement and Agriculturists Loans Act cannot touch the real problem and the money-lender would reign supreme. In public interest, it is therefore desirable to examine these cheap dictums in connection with facile credit and not to allow them unduly to hamper the devising of measures calculated to minimise the dangers, which are heavily exaggerated.

Is Cheap Credit an Evil?

51. The bogey that credit can be too cheap need not worry India, till it is established that it is not too dear. At present an agriculturist, who is the full owner in some provinces of the occupancy rights, has the power to deal with his property and his produce. Assuming that he is not in debt, he can get into debt. If he is not in debt, there are people willing and able to lend him on the security, which he can offer. It is the unanimous opinion of all Provincial Banking Committees that the rates, which an agriculturist has to pay when he does not deal with a commercial bank, which is not frequent, or a co-operative institution, which is confined to a fringe of the population and which requires from him an unlimited liability, are very high. When the debt is well secured and at a high rate, the lender is happy to leave it there without pressing for repayment. In fact, as he is seeking investment for his money on safe terms, he may even press for further loans on his client.

The borrower in this way is lulled into a sense of false security, so long as he does not exceed what the lender considers to be a margin of safety in lending. When that position is reached, the client is drawn into a position, from which he cannot extricate himself. That a high rate of interest is deterrent to borrowing is not borne out. Until the borrower is clear and alive to the idea of prompt and regular repayment, which he always is not, even if he is a member of the co-operative society and has been lectured upon, cheaper loans will not cause greater ruin than has been caused by dearer loans. The facility for borrowing and elasticity of methods could not be greater than those of the moneylender. Many provincial reports have mentioned the rigidity of the rules of the co-operative societies, which militate against greater use being made of them and against their membership. Easier rules, therefore, in securing credit at cheaper rates cannot in themselves increase an evil.

Remedy.

52. But the evil can be decreased by the fact that, by adroit handling and care, interest payments at present would in many cases be made to go not only towards interest, but towards repayment of a portion of the loan. The total indebtedness might increase through new loans, but the charging of compound interest at heavy rate, which eats away the vitals of the agriculturist, might be checked. Some provincial reports mention that members of co-operative societies are actually more indebted than other agriculturists, and others mention that their debt, instead of diminishing, is actually growing. To an economist, statements of this kind cannot but indicate that the evil is deeper. It must also prove that, instead of being reduced, the evil is being increased. Some societies show good results, which only means that some agriculturists, who are members of the co-operative movement, manage gradually to improve their position and come in the class of agriculturists, who are free from debt, which is a smaller class. It is desirable to increase that class. To the extent to which the co-operative movement does this it is achieving a good result, but many supplementary measures are necessary to quicken the process or reach those who are out of it.

Without being charged with undue pessimism, it appears to me that a silent revolution is going on, by which the independence of many agriculturists is being gradually sapped. The financial dependence of the agriculturists on other classes, whom they are unable to pay fully and to whom they, therefore, pay all that they can, must tend to reduce their standard of life and to destroy their motive for larger production.

The process should, therefore, be to increase the number of agriculturists, who are free from debt and to put as many of them on the path towards such freedom as possible, so that when one set of agriculturists get ruined, there are at least equally com-

petent agriculturists in the district, who would be willing to take up the land and cultivate it to its best capacity.

Is the Supply of Capital Adequate ?

53. I have not been able to reconcile myself to the ideas on the subject, which I found in the chapter on finance, of the Royal Commission on Agriculture. They say:—

"Speaking generally, we consider that what is lacking is not so much capital for land improvement as ideas for utilising it for productive purposes. In no province did it appear that the work of improvement was in any way restricted by shortage of funds for loans under the Land Improvement Loans Act. Local Governments are everywhere willing to make a larger provision for this purpose if there is a real demand for it for productive works. There seems no reason to believe that the village moneylender hesitates to advance funds for such objects. The security for long-term loans of this character is usually a mortgage on cultivated lands and there is ample evidence that the total sum invested in such mortgages is many times that part of it which has been used for land improvements."*

According to the Royal Commission themselves, only a fraction of mortgage loans goes into permanent improvements. For the section that is outside the co-operative movement, what comes from Government and what comes from the moneylenders has not been anywhere considered adequate. The inadequacy is further illustrated by the rates. The rates, at which the state gives loans under the Land Improvement Loans Act, are fixed and are not very high, but the rates, at which the agriculturist derives his money from the moneylender, are very high. High prices in economic literature connote scarcity. The price for money, which is going directly and definitely in land improvement, ought not to be high, since the land improvement *ipso facto* increases the value of the land and adds to the general asset value of the security. Assuming that it has to be as high as it is, averaged out and mixed up with loans for other purposes, there is an indication of the general scarcity, from which the requirements of a good purpose also suffer and the idea of the general scarcity for loanable money in rural districts, which has been brought out in various Provincial Reports, is in direct conflict with the dictum of the Royal Commission that it is not capital, which is lacking, as ideas for utilising it for productive purposes. I would stress, that primarily it is the dearth of capital available to them. If, by a magic wand, the savings of the agriculturists in India could be increased for the next five years, even if much of these savings were disposed of in other ways, there is not the slightest doubt that some of it would go towards the improvement of land. The agriculturist, as he is, cannot save much and even where he has ideas, he has not the money to put those ideas in practice.

* Report, page 428.

Agriculturists Loans and Land Improvement Acts.

54. For short-period borrowing, the Agriculturists Loans Act has proved useful in the provinces in varying degrees. According to the Royal Commission on Agriculture:—

"It is argued that, in normal times, the system of government loans is inimical to the growth of a healthy spirit of self-help; that it runs counter to the teaching of co-operation and that it leads to demoralisation."*

It is further pointed out that "Government can never find the whole sum required to finance normal agricultural operations, and that, therefore, their attempt to find a part of it merely leads to anomalies...........The Act can never be the means for meeting all the normal requirements of agriculture; but it is of great value in certain contingencies. It is being gradually displaced by the co-operative credit system which already provides far more capital annually than Government."*

The demand to confine the use of the Act to periods of distress and scarcity and, therefore, to suspend its operation in normal times, has been supported by arguments adduced before the Royal Commission. In this matter also, while rates of advance, both by Government and by co-operative societies, are fixed from the top and without any reference to local monetary conditions, the rates payable by the agriculturist to the Mahajan and to the agriculturist moneylenders are very high. These high rates indicate a dearth of money. The issue is not whether supplies of Government funds have become unnecessary, because the co-operative movement has actually more funds to put out in the year, or because the funds available in the movement cannot be fully employed.

The amounts lent out under the Land Improvement Act and the Agriculturists Loans Act in the various provinces were as follows:—

	Land Improvement Loans Act.	Agriculturists Loans Act	Remarks.
	(In thousands of rupees.)		
	Rs.	Rs.	
Madras	12,70	11,54	Relating to 1927-28.
Bombay	13,72 (in 1926)	9,57 (average of normal years)	Figures for each type of loan not separately available for all years.
Bengal	93	14,41	Relating to 1928-29.
Bihar and Orissa	70	8,34	Average of five years.
Assam	7	1,50	Average of five years.
Burma	20	1,90	
The Punjab	5,00	11,00	Average of five years.
Central Areas	1.70	1,58	Average of three years
	35,02	59,84	
Total	94,86		

* Report, paragraph 362, page 430.

Some of these figures would vary from year to year according to the existence of distress in provinces particularly in the case of the Agriculturists Loans Act.

The Royal Commission on Agriculture say:—

"Further elasticity would probably make abuses easier without materially assisting the cultivator.......................The Act can never be the means for meeting all the normal requirements of agriculture."*

The working of the Land Improvement Loans Act and the Agriculturists Loans Act in various provinces has been reviewed by the Provincial Committees. The need for wider publicity to enable cultivators to take advantage of these Acts and for removing abuses in connection with the administration of these Acts has been emphasised.

55. These Acts were instituted as the results of conditions brought to light by the Famine Commission. The attraction is that the rates, at which loans are given, are low, but most of the Committees have pointed out that in rural districts full information is not available regarding the facilities, which Government are willing to give. It has been brought out that there are numerous delays in passing applications for loans, that parties are selected on the recommendation of district officers, and that they are not always the parties, who are most needy. It has been further shown that the amount of advance made is limited by rules and does not satisfy the full requirements of the applicant. Various improvements in this direction have been pointed out by the Provincial Committees, and I do not wish to burden this report by going into details, on which the Provincial Committees have dealt with care. There are differences in the Provincial Reports with regard to whether such loans should be distributed through co-operative societies wherever they exist. The procedure must depend on local conditions and should be determined on its merits by Provincial Governments. The existence of the Acts on the statute book is a direct proof that Government have accepted the principle that the cultivator is entitled to assistance and encouragement, and to the extent to which the loans are being given, relief must be reaching the borrowers. That this machinery, which has been characterised by the Bihar and Orissa Provincial Committee as sporadic, is likely to do more harm than good and that in normal circumstances it cannot in any sense be a substitute for the greater measures, which I recommend, must, however, be emphasised. Government cannot find all the moneys, which are required for current finance, or again for long-term loans.

56. The funds made available to the agriculturist by Government under the two Acts and by the co-operative movement together, are a very small fraction of the funds actually required by the cultivator, and also of the total funds, which are made available to the cultivator from all sources. Some Provincial Committees

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* Report, page 430.

have estimated the requirements for short period in the province. The estimates are as follows:—

"The total requirements for the short and intermediate loans are estimated by the Bengal Committee at Rs. 96 crores for Bengal (Bengal, para. 121); and by the Bombay Committee at Rs. 32½ crores for Bombay (Bombay, para. 76). The Central Provinces Committee estimate the annual requirements for seasonal and short-term loans at over Rs. 7 crores. The intermediate loans will, it is said, amount to a considerable sum and both together will be about three or four times the total provincial revenue (Central Provinces, para. 101). The total annual crop loans of Burma are estimated at about Rs. 20 crores (Burma, para. 149)".

57. I do not put much credence on these estimates. In my opinion they are an under-statement*. The thing has not been worked out. Nor did we have the time and material to work it out. I would, however, indicate briefly the method, by which this should be worked, and that would be to make an estimate of total agricultural production, whether it is for the whole country, or for a province, or for a district. It would then be necessary to consider the number of actual cultivators, who are not in debt. For those, who are in debt, the total cost of cultivation would have to be borrowed. For those that are not in debt, a smaller amount would have to be borrowed. Some of them would probably satisfy the whole of their requirements without the borrowing, and some of them may be actually in a position to lend out.

The requirements for short-term finance would have some reference to the total production, though the same finance might do where more than one crop is taken out on the same ground in the year. No accurate figure of the value of total production in India from agriculture alone is available.†

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* In Bengal the value of the crops is put at 244 crores and the finance required for short and intermediate loans at 96 crores, *i.e.*, about 36 per cent. In Central Provinces the local committee put the value of the crop at 79 crores and finance for short loans at 7 crores giving about 9 per cent.

† Such a figure would not only vary with the variation of prices in different seasons and different years, but care will have to be taken if it is to be used as the basis of calculating financial requirements of the cultivating classes, to take the price, not at the centre of the wholesale market, but as near to the Mandi, where the village produce comes to be sold, as possible. For a calculation of India's total wealth production, the wholesale price would be a proper price to take, and the warning is necessary, because most calculations, that I have seen, appear to have been made on this basis.

	Value of crops in crores (1928-29).	
Bengal	244	Figure nett after deducting marketing price.
Central Provinces	75	No estimate made.
United Provinces	...	Figure of 1927-28 subject to limitations *re* accuracy.
Bombay	158	Value given for crops of 33·2 million acres out of a total of 38·9.
Madras	164	
Bihar and Orissa	...	Various items would have to be added to arrive at total gross income of the cultivator.
Punjab	99	
Burma	.	No total estimate given.

From the point of view of the cultivating classes, it is true that a period of sudden boom would tend to reduce the burden, where the full benefit of the high prices is transferred to the purchaser.* A succession of good years, such as India has had, would ease the situation, whereas a contrary period of low prices, or failure of crops for any reason, would intensify the burden. There is no crop insurance in India, nor indeed any kind of insurance affecting the cultivating classes.† It seemed to be the general opinion of the Provincial Committees that, though some moneylenders are harsh on some borrowers and there are some malpractices, yet as a class they strive to enable their clientele to tide over a bad period arising either out of the general conditions affecting all, or out of the individual circumstances of the borrower.

58. Estimated from this point of view, the supplies, both from Government and from the co-operative movement are woefully short of the requirements. The supplies from the Mahajans are many times as much as what comes from these two sources, and what is available from all the three sources is also less than what should be available. If this were not so, the price would not be high. There would be no demand for elasticity in methods of collecting land revenue or for the introduction of the instalment system in those collections. There would be no complaint that the actual cultivator has to part with his produce very cheap and has not the holding power, which would enable him to spread out his sales, or to keep out at unfavourable moments from the market. The course of prices at various Mandis in the staple agricultural products of India should be collected in order to check this fact. It may then be brought out that prices slump to the lowest point during those weeks, when the largest amount passes out of the hands of the primary producer into the hands of the merchants, and that the discount in price to the cultivator is an indirect imposition of a heavy rate of interest. I regard this symptom as definitely pointing to a dearth of loanable capital.

Can the Moneylender be replaced by the Co-operative Movement?

59. In connection with this, I cannot help quoting from the Royal Commission on Agriculture:—

"In the present state of India, he (the moneylender) is a necessity and, that being so, his calling will not be abolished by making it illegal. He alone is in a position to provide the bulk of the capital required for current agricultural needs and, on a recurrence of severe distress, he will continue, as in the past, to support the people by timely loans. If he is ever driven

* Refer to paragraph 91 dealing with Central Markets and the prices received by the cultivator.

† See note on Cattle Insurance in Annexure VI.

from the land, it will not be by legislation but by the growth of the co-operative movement and, more especially, by the habits of thrift inculcated by that movement."*

I regard the expectation, that the growth of the co-operative movement will replace the moneylender completely at any time, as chimerical. I have given reasons for this opinion in the chapter on Co-operation, pointing out the limitations to the growth of the co-operative movement in the country. With regard to the habits of thrift inculcated by the movement, I have pointed out elsewhere, that members' deposits in primary societies are largely the result of compulsion and not of thrift. They represent an arbitrary deduction from the loans and must be regarded by the borrower in the nature of a higher rate charged to him. The moment to save money is not the moment when one is about to borrow it. Even men located in a much higher station than the Indian cultivator is, and endowed with greater powers of perception, will find it difficult to reconcile their dual position, coming, as it would, at the same moment. Looked at economically, thrift in this case is fictitious. That thrift of this character will secure the accumulation of funds, which will drive the moneylender out of the land, is a position, which I find it difficult to accept. I have dealt elsewhere with the question of thrift by the cultivator and the impossibility of it. What meagre possibilities there are in this direction, is borne out by the view of the Royal Commission themselves a little further as follows:—

"To a very great extent, the cultivator in India labours not for profit nor for a net return, but for subsistence."†

Men, who labour for subsistence, must subsist. They cannot save. Their capacity to save is extremely limited. They have to be placed in a position to save and the support to the agricultural life of India from thrift amongst the cultivators, can only come, when the lot of the cultivators is improved.

"Where thrift is absent, the vagaries of the monsoon drive the people to borrow and, unless the co-operative movement spreads into every village and includes every inhabitant in its fold, borrowing will continue."†

In the light of this, I cannot share the optimism of the Royal Commission on Agriculture, who say:—

"For the small cultivator, the necessity to sell shortly after harvest can be removed by organised thrift such as is provided by the share or compulsory deposit systems in village credit societies; the experience of such societies seems to indicate that the exercise of thrift for ten years or so would enable most cultivators to dispense to a very large extent with the necessity for borrowing for current agricultural needs.‡

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* Report, paragraph 363, page 433.
† Report, page 433.
‡ Report, page 429.

60. Without seeking to discourage any good effort in this direction by the co-operative movement or by any other kind of saving institutions, which may be set up, I feel that opinions of this kind are unduly optimistic. They are not based on an examination of the economic position of the cultivator. They raise hopes, which are destined to be frustrated. Such opinions will not stimulate the searching enquiry into remedial measures to cure a difficult situation in the agricultural districts in India, which has become very necessary. To expect that the structure of rural credit can be raised in the agricultural districts from the savings of the agriculturists themselves, which will render borrowing by them unnecessary, is tantamount to turning down all other suggestions for improvement from outside without a proper examination. The majority Committee have made definite recommendations with regard to land mortgage banks on a co-operative basis, as well as with regard to agricultural banks on the model of the English Act. If the thrift of the cultivating classes was coming in every year, in the manner, which appears to be indicated in the above opinion of the Royal Commission, it would release outside moneys now engaged in short-term financing, and it will render the problem of long-term financing much easier than it really is. The expectation of the Royal Commission on Agriculture has not been supported and most of the Provincial Committees recommend the establishment and extension of land mortgage operations accompanied by active measure of support from Government in various places.

THE AGRICULTURAL MONEYLENDER.

61. The most marked feature of rural economy in India as the result of the examination of Provincial Banking Committees, is in my opinion the fact that the agriculturist himself is doing a substantial amount of moneylending.* This should leave no room for the emphatic note of caution with regard to the development of credit in rural areas on account of the ignorance of the people either in the use of the money or in the use of the credit. In appraising the worth of the security and the capital of the party in question at the time of loan, the agriculturist would beat every other credit agency. No particulars are available as to whether

* Punjab report: Moneylending is a particularly attractive form of investment to an agriculturist, who is not a Mohamedan.............. The agriculturist moneylender is one of the credit agencies, which is displacing the village sowcar, his growth having been stimulated by the Land Alienation Act.................... But he is avaricious and exacting.

United Provinces report: Of the amateur moneylenders, the most important is the agriculturist moneylender, namely, the landlord who lends to his own or somebody else's tenant, and the tenant with surplus resources, who lends to his fellow cultivators........... The tenant moneylender in search of land is the most merciless and exacting of all usurers.—(United Provinces, paras. 110—117, 202.)

Madras report: "Landlords and ryots give loans in kind as well as in cash with a stipulation for repayment in kind. Such loans involve repayment with 25 to 50 per cent. of interest.—(Madras, para. 471.)

the agriculturist, who lends to a fellow agriculturist, loses much, or has much difficulty in recoveries out of court. I would recommend some particulars of this to be secured for selected places in each province as they have a very great and direct bearing on the whole problem.

The usurious character of these loans has been remarked upon in most of the Provincial reports. Much would depend upon whether loans come to be made after a fruitless application by the borrower to the local Mahajan. In any case the agriculturist moneylender is certainly entitled to take what he can according to the current standards of the market. No one can blame him from making a bargain favourable to himself and for stretching a point in his own favour just short of losing the transaction.*

The significance of these rates is great. It signifies for one thing that these moneys could not be attracted into the savings bank, and that an increased rate would not attract them in any other savings or deposit scheme, which could be devised. They further denote the impossibility of attracting these parties into the co-operative movement as members taking over unlimited liability for other people's debt, or deposit their own funds in primary soieceties and central banks at the rates they allow. No credit agency, which has to spend money on administration and which would, in some cases lack the local knowledge as well, could compete with the agricultural moneylender. The danger, which every other class of moneylender has, of the bother of taking over the land and finding a tenant therefor is not one, from which the agriculturist need fear. From the point of view of the community the passing of more land in the hands of capable and resourceful agriculturists would not be an evil. It is also possible that the purposes, for which, and the security on which, the agricultural moneylender lends, are such as not to appeal to any other credit agency. Taking all these factors into consideration, the

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* Indication with regard to the rates of interest has been given by various Committees, subject to the limitation that they vary under different conditions in different districts and according to the nature of securities:—

Assam	12 to 75 per cent.
Bombay	12 to 25 per cent., rising to 50 per cent. in Sind.
Bengal	Minimum rates are 10 to 37½ per cent. and maximum 37½ to 300 per cent.
Bihar and Orissa	From 18¾ to 37½ per cent. for cash loans, and from 25 to 50 per cent. for grain loans.
Burma	18 to 24 per cent., but for small unsecured loans 48 to 60 per cent.
Central Provinces	12 to 24 per cent., rising to 37½ per cent. and grain loans 25 to 100 per cent.
Central Areas—	
Ajmer-Merwara	Secured 6 to 13½ per cent., unsecured 12 to 18 per cent.

question, which one has to ask is, is it possible to replace this agency? Is it desirable?

I have no hesitation in saying that it is not possible to replace the moneylender as a whole and the agriculturist moneylender in particular by the co-operative credit movement, by Government themselves stepping in the field, by the machinery of ordinary banks, by commercial land mortgage banks, or by any means whatsoever. I can find the support for this view in several reports of Provincial Committees so far as the moneylender as a class is concerned.

62. How is the borrower then to be saved from the heavy burden of interest charges, which he has to bear? The only other method appears to be to take those steps, which will tend to bring money rates down all along the line, and this decline must ultimately affect all money contracts including those between the agricultural moneylender and his client.*

To me as an economist, the co-operative movement, shorn of all its frills and ornaments, appears to be nothing but the mechanism for bringing money from the central market back into the districts and for lending it out under a set of rules. It is essentially a huge borrowing machine. As I am going to recommend another scheme and to claim for that scheme in some direction the best attention of the state and every possible encouragement, I should not be misunderstood as in any sense running down the co-operative movement or scoffing at it. If I plead for an alternative method on lines that I consider safe for everybody concerned and of great benefit to the state and the people, it is not for the purpose of disparaging the co-operative movement, but for advancing its principal goal, *viz.*, the welfare of the country.

Delhi	12 to 24 per cent.
North-West Frontier Province	Secured 6 to 18 per cent. Other cases 12 to 36¼ per cent.
Trans-Frontier Province	Money rates 75 to 100 per cent.
Madras	12 to 24 per cent., rising to 36 and 48 per cent.
Punjab	6 to 12 per cent. for secured loans. Unsecured, rates not mentioned, but rise to any figure.
United Provinces	7½ to 12½ per cent. for commercial and mortgage debts. 18 to 37½ per cent. are the charges of the village moneylender. Grain loans 25 to 50 per cent.

* In view of this I cannot but regard it as mere misplaced zeal on the part of those, who expect the moneylender as a class to put his money on deposit with co-operative banks, or to join the co-operative societies. The variety amongst the moneylenders is great and their rates are high and some of them still higher. It will not be benevolent moneylenders, who will join the society, but those moneylenders, who, while keeping their hold on securities, desire to recover arrears, or the use for their own purpose of cheap advances coming from co-operative central banks, who will set up co-operative societies from their own debtors, and run them as long as possible for their own purposes and then get them scrapped.

CHAPTER VI.

SCHEME OF LAND MORTGAGE THROUGH GUARANTORS.

63. *Facilities for long-term credit.*—It has been recognised that the credit needs of the cultivator fall into two heads, the short-term and the long-term. This description is, however, not kept in mind either by the borrower or by the lender. Even in the co-operative movement this defect has crept in in some places, involving default in the payment by some societies not only of capital instalments, but of interest.

The Bengal Committee characterise existing facilities as inadequate and unsatisfactory.* According to the Bombay Committee, not one of the existing agencies possesses all the ingredients required for developing a successful system of long-term credit, *viz.*, low rate of interest, redemption by a number of small annual payments fixed on the basis of repaying capacity, and automatic expansion of resources.† A strong under-current of similar feeling runs in the reports of other Provincial Committees, most of whom have asked for the establishment of land mortgage banks in the provinces.

64. *Should land mortgage banks be co-operative?*—The Royal Commission on Agriculture have expressed themselves in favour of establishing co-operative land mortgage banks, and the recommendation of the majority is also in that direction. I have taken some pains to enquire into the extent and the manner, in which the principle of co-operative credit is to be established in the case of land mortgage banks. For one thing, there is no unlimited liability in this case and the borrowers do not, therefore, in any sense guarantee the debts of each other. The co-operation part then came in in the sense that the borrower would be also a shareholder. I have referred in paragraph 59 to the futility of attempting a combination of the function of saving and borrowing at the same time. The money for the share becomes merely a deduction from the loan. That the average cultivator in India would understand his rights and obligations in respect of a share to the extent of helping the bank and watching out for its solvency and strength, is, to my mind, an extreme expectation. The only concrete advantage, which I find in the proposal to constitute land mortgage banks on the co-operative principle, is the various concessions, which are extended to co-operative institutions in respect of remittance, stamp duty, registration and court fees, and in respect of exemption from income-tax. These are valuable privileges and I do not see, why a land mortgage bank working on the joint stock principle should be debarred from having these privileges. Nor have I yet succeeded in realising how, if the shareholders of the land mortgage bank, who would also be borrowers, were to appoint

* *Vide* Bengal Provincial Banking Committee's Report, para. 141.
† *Vide* Bombay Provincial Banking Committee's Report, para. 110.

directors, the directors could exercise business strictness in securing regularity of repayment of instalments.

I do not wish it to be understood for a moment that the co-operative institutions engaged on land mortgage work, or other work, should not have the assistance, which they are receiving now. On the contrary, it will be seen later in this chapter, that I recommend giving special facilities to the co-operative central banks to administer land mortgage funds. The trend of opinion of the foreign "experts" was against this, and it would appear that they desired the commercial banks on the one hand, and co-operative banks on the other hand, to be kept altogether apart from the business of land mortgage. It is one thing to say that these banks should not use their own funds for the purpose of land mortgage, but that they should be debarred from administering land mortgage funds placed in their hands under specific rules, would cause weakness to the business of the land mortgage, which would be shut out from taking advantage of the experience, local knowledge and superior skill, which may not be available to land mortgage organizations. The other objection against banks engaging into land mortgage business is the reaction on their credit and deposits, if a debenture issue is made by them on their assets. It will be seen how it is proposed to meet both these difficulties.

65. *How should the funds be raised?*—A new agency is being requisitioned more for the purpose of raising the funds necessary for long-term credit. It has been generally felt that these funds would have to be by way of debentures. But it is also recognised that the raising of these debentures by land mortgage banks started as a matter of private enterprise would not be easy. Provincial Committees generally have recommended that land mortgage debentures should have a guarantee of interest from Government. Some of them have recommended that the debentures should be put in the list of trustee securities. The question of guarantee would depend on the risk which Government would run by such action. If the valuation of the land at the time of the loan is done by an agency, in which the state has confidence, and if an adequate margin is kept, the only serious risk would be the fluctuation of the land value. Land values have tended to rise in all countries in the world and particularly in India, and over a long period there may be no serious apprehension of default, particularly as incoming instalments of repayment would, in the initial years, cover up any such default. A regular recovery of the equated annual payment covering interest and principal would depend upon the agency, through which these recoveries are made. If, therefore, this is tacked on to the land revenue payment, the process of regularity is ensured except in those cases, where there is a sound justification for suspending or remitting the land revenue itself. If, in addition, the repayment of the loan is guaranteed by a local Mahajan and if this guarantee is not merely a paper guarantee on trust, but in the form of concrete deposits, as indicated in paragraph 76, the risk run by the state reduces itself to very small dimensions. Considering the welfare of millions of people, which will be involved in this

scheme, and the indirect benefit to the state itself, I recommend that this risk should be run under conditions of caution indicated in this report elsewhere, and that money should be raised on the guarantee of the state, thus involving a minimum charge to be borne by the final borrower. If the guarantee is to be really effective, it has to be both for principal and for interest. If the issue is to be popular with the investor and is to pass into the hands of permanent holders, it may be essential to institute a sinking fund and to watch the market, so that, by the quantity of the issue, prices do not sag, preventing further issues except at a heavier rate of interest or at a discount.

SHOULD THERE BE SPECIAL INSTITUTIONS TO ADMINISTER LAND MORTGAGE FUNDS.

66. The importance of making provision for long-term loans, both for redemption of old debts and for improvements having been granted, and the machinery for securing the necessary money on the cheapest and best basis having been fixed, the next question to consider is, through whom this money should reach the borrowers at minimum cost and with an assurance of sound administration. With regard to the co-operative banks, it has been suggested by the foreign "experts" and endorsed by the majority, that separate institutions of land mortgage should be set up. I regard this as a counsel of despair. A separate institution is helpful, if its turnover is large enough to justify the cost, and the position is not met by keeping the cost down to such an extent, as to have these matters fall into the hands of very small people, lacking in competence. In order to be carried out well, the work must be handled by capable people, and when this is a matter of cost, land mortgage banks could not have that amount of work year in and year out, which will justify engaging superior staff. There would be a lot of routine work, particularly with regard to the recoveries, but the judgment of the superior staff will not be requisitioned except on large and new issues, *i.e.*, not very frequently. If there is not going to be a frequent call on the time and energy of the superior staff, there does not appear to be any adequate reason that those in charge of central banks of the co-operative movement and those in charge of branches of commercial banks outside the co-operative sphere, should not be entrusted with this task. It will serve at once the purpose of economy as well as efficiency, as the charges to be borne by the land mortgage section will be a portion only of the total charges of the superior staff. The full charges of the lower staff directly engaged in the work would, of course, have to be borne. There may be also economy with regard to office rents and for office incidentals.

The arguments for entrusting this work to commercial banks and the large co-operative banks is further strengthened by the fact that the scheme of guarantors, which I am suggesting in paragraph 76, could not be carried out otherwise. The inducement

to the guarantor has got to be substantial. It is essential to arouse his confidence. He is called upon to deposit a large part of his resources on a basis, which would fix his deposits for a long period. He is called upon to accept in substitution of his present position and earnings, an income, which would add to his responsibilities and will possibly not be equal in amount to what he is making at the moment. Unless he could trust the institution, through which the scheme is being put into operation, it is not likely that his co-operation could be secured.

67. Even the foreign " experts " dimly realised the importance of securing the co-operation of the private banker, who has engaged a very large capital in agricultural districts and who has unique knowledge. Several Provincial Committees recognised that financial measures calculated to ameliorate the position of the agriculturist, would succeed better, if the co-operation of the indigenous banker and the village Mahajan were obtained. Various measures were discussed by which such co-operation could be secured. A hope came to be expressed that the moneylender would deposit his money with co-operative organizations and be content with receiving the rate from co-operative central banks on deposits, at which such institutions in their turn borrow from provincial banks. Many of these ideas appeared to be matters of pious hope. There may be no doubt regarding good results, if they could be realised, but they seemed to disregard the fundamental facts of human nature. The suggestion, which I am making, involves a combination of two ideas. It involves the land mortgage business being done through the Mahajans and in such a way that his income is reduced, if possible, only to the extent, to which his risks and costs are reduced. The other idea is that, if his own money, instead of being lent out by himself, were lent out through the co-operative institutions, it will not mean a substantial addition of available funds, whereas, in the scheme, which I propose, it is intended to build up a larger credit structure on the basis of existing cash available in the districts.

68. It is not merely of importance that the institution, which is going to administer land mortgage funds, should have the confidence of the guarantor to the extent, which will induce long-period deposit by him. The question really is, is Government guarantee, which I have made real by extending it to the principal and interest until redemption, to be made available to every new institution, which may be set up, or, must the funds raised by the use of the credit of the state be passed on to the primary producer under definite rules, but through the intermediation of large and reliable institutions. The thing would work in a vicious circle, if it is not handled properly. The willingness of the state to allow the use of its credit for this purpose, must depend not merely upon the needs of the community in agricultural districts, but also upon the assurance that the funds will be lent out on a proper basis, and that the risk of definite loss to the state involved in the operation will be reduced to an absolute minimum. In other words, it is of the

essence of the scheme, which I am putting forward, that the institution, which administers land mortgage funds, has to be very carefully chosen, and that the guarantee of such an institution would be worth something to the state. Outstanding institutions will be willing to give this guarantee, only when they realise that the scheme, which they have to administer, will bring them an income without involving them into a loss. The moneys, which would be entrusted to these institutions, would be in a definite proportion to the guarantor's deposits, which they would be able to secure, and in course of time, the amounts in any particular institution may be considerable.

69. While recommending the principle, that the state should interpose its credit for the purpose of bringing more and cheaper funds within reach of the agriculturist, I feel the strongest hesitation in allowing the use of such guarantee to small and isolated institutions, that may be set up whether inside the co-operative movement or outside. In order to be of any real use, the scheme would have to be on a sufficiently large scale, and, if that is so, the interests of the Government, who make themselves responsible for the repayment of the money to the bondholder, must be protected. Government in their Finance Department may not be able to attend to this effectively either at the centre or in the provinces. It is therefore recommended that a department be instituted in the Reserve Bank of India, whose functions would be as follows:—

(1) To appraise the requirements and to put forward at a time suitable land mortgage bonds, guaranteed by Government as to interest and principal.

(2) To make the arrangements at all intermediate periods for the sale of these bonds to the public and to provide for purchase by the investor on instalments on a suitable basis.

(3) To distribute the amounts raised equitably between the various provinces, having regard to their needs and also to the extent to which guarantors are forthcoming in each province.

(4) To administer a sinking fund and other charges and to distribute the interest on land mortgage bonds.

(5) To deal with all agents, whether co-operative banks or commercial banks, through whom the scheme is to work.

(6) To make fundamental rules for the administration of the scheme and to see that these rules are carried out by the agents.

This is necessary in my opinion because of the importance of the subject as well as of the responsibility, which Government would undertake, and for the discharge of which, they would not have an adequate machinery departmentally. It is also essential that the accounts of the land mortgage bonds should be kept separate from ordinary government accounts and should be administered

separately, involving both safety for the taxpayer and safety for the investor. But much more than this, the reason for entrusting the work to the Reserve Bank lies in the wise discretion, which the Reserve Bank would exercise on the quantity of the issues, so as not to conflict with other public requirements and also not to embarrass the money market. There is further the supreme ground that only a bank can deal with other banks, who will carry out this programme and can fix terms neither too high nor too low for the work involved.

70. The Reserve Bank must also come in, because it is not unthinkable that the land mortgage bonds guaranteed in the manner indicated above, could be put in foreign markets. It came in evidence before us, that a very large amount of such bonds were placed abroad by Hungary. It is understood that this has also been done by Germany, Belgium and other countries. With adequate security behind them and with the guarantee of Government, there is no reason why a large chunk of them should not prove an attractive investment in other parts of the world, where money is seeking sound investment. For this purpose also the intervention of the Reserve Bank, which will be in touch with the Central Banks in other money markets, is of paramount importance, as it would give a guarantee to the foreign investor that his money does not go into the coffers of the state in India, but is being administered on business lines as an entirely separate scheme, the risks being spread over many parties with the ultimate and indisputable asset in the hands of the people.

Another important reason for entrusting the work to the Reserve Bank is, that the Reserve Bank, under my recommendation, would have the charge of all receipts from Government savings banks. They would be also responsible for the payment of interest on these deposits and certificates and for the utilisation of the funds arising therefrom in an economical manner. There does not appear any reason why some of these funds should not be invested in land mortgage bonds.

71. Several questions would arise. It may be asked, whether there should not be a land mortgage bank in each province. There is no fundamental objection to this, but, as a matter of convenience, having suggested that there should be a branch of the Reserve Bank in each province, I feel that this matter could be handled conveniently at such a branch through a land mortgage department. This will eliminate the need for raising extra capital for land mortgage banks. The need of such capital as a margin against the debentures does not arise, when the debentures have the full guarantee of Government. The work would undoubtedly be done by a separate department, and the accounts would be kept and handled separately.

The Provincial Committees have noticed the importance of proper valuation of the security for land mortgage purposes. This becomes even more serious under my scheme. Apart from valua-

tion, the improvement in the record of rights and in registration becomes also important. Improvements in the system would be stimulated by the greater interest which Government would have, and the benefit of such improvement would also be available to the public. The question, further, of costs in connection with recoveries and delays in the processes, would receive the attention, which it has failed to receive in the past in spite of many warnings. Institutions using land mortgage funds under this scheme would have to be given a prior charge and a summary process of recovery set up in their favour. The land mortgage department of the Reserve Bank would have to frame model rules and would have to deal with all exceptional cases, which do not fall in within those rules. Since, only the broad principles are dealt with in this report, it is not possible to give the details. The idea, however, is that the Reserve Bank would have to cover itself for the cost of administration, and would have to fix such rates as will leave the banking institutions chosen by it, sufficient margin to induce them to do the business. The margin to be kept in the loan to the primary producer would vary according to circumstances and may be not less than 40 per cent., and it would be on the assets behind the loans in this manner, that the redemption of the land mortgage bonds will be secured. But it may be quite feasible, and even desirable, for the intermediate institution to give, in addition, its own guarantee to the Reserve Bank to secure freedom to make its own rules with the guarantors. The minimum proportion, which the loans will bear to the deposits made by the guarantor, should, however, be laid down in each case, as well as the rate, at which the loans will be made. The choice of the institution, which will administer the land mortgage funds, would thus be with the Reserve Bank, and it is expected that, if the leaders of the co-operative movement desire, the Reserve Bank will also make use of the co-operative central banks for this purpose.

72. From the point of view of the borrower, the interest and repayment would be in a composite instalment payable in the same manner as the land revenue, but with such additional elasticity, as it may be considered desirable to introduce. Land mortgage funds, under this scheme, would not be by any means unlimited. The preference, which the intermediate institution would be, therefore, expected to exercise, would be in favour of those borrowers, who are not altogether insolvent, and who have repaying capacity. It will have to be remembered, that credit facilities are being created not to bring a larger number into debt, which does not exist now, but to give relief to those, who have existing debts at heavy rates of interest. Particular care will have to be taken to reach the benefit to those, who, while being eligible in other respects for the loan, are also able to secure substantial reduction in their paper debts. Debt conciliation, which is an important object to achieve, would have to be worked in under this scheme in order to gain the maximum benefit for the agricultural community. Obligation in this regard would have to be put, therefore, in each district on some one. It would thus be necessary to secure in this

and in several other matters, already noted, close co-operation from revenue officials.

73. In order to indicate that the scheme recommended herein is one of great magnitude and would deserve careful consideration, it may be pointed out that it is expected to run into many crores. In the 273 districts in India, if the guarantors' deposits under the scheme were only Rs. 20 lakhs in each district, it would give a total of about rupees 55 crores. It will be noticed that this is a small fraction of the total amount of money, which is estimated to have been engaged in loans to agriculturists by money-lenders and private bankers, and is by no means an extravagant expectation. Under my scheme the land mortgage debentures would be five times as much, *i.e.*, in the neighbourhood of Rs. 250 crores. There is no doubt that the operations of the scheme would have to be spread over some years, that the progress could not be uniform everywhere in India, but a substantial increase of credit, in order to bring down money rates, would have to be on something like this scale. The long-term funds brought in in this way may be expected to release for short-term financing considerable amounts now locked up. Whether the scheme will make a large progress in the next few years, or, would be hampered by difficulties of all kinds, it is premature to say. Whether the borrower would agree to the strict rules, which would be inevitable, or, would be induced to believe that they are inimical to him, would depend on the state of public opinion in the country. Whether the money-lender and the Mahajan would see in this scheme a means of destroying their ancient trade, instead of a means of general amelioration, retaining their services in a position of honour and dignity, would again depend on the lead, which is given by officials and non-officials to public opinion in this matter. Whether the financial exigency of Government permits them to issue land mortgage bonds in sufficient quantity, to effect a real improvement and in response to a real demand, is again a question for the future. There will be many scoffers at an ambitious programme of this kind, but a radical remedy is wanted for a radical evil. Cheeseparing and temporary expedients have not brought any improvement in the past and cannot be expected to bring any improvement in the future. The thing is big enough to be attempted in a big way, if the agricultural classes as a whole are to be relieved of a burden, which is removable by a proper organization of the wealth of the country, meagre as it is.

74. *Should banks lend direct to borrowers?*—The system of co-operative land mortgage banks involves direct relationship between the borrower and the bank. It is on the basis of supplanting the Mahajan.* The scheme, which I am recommending, is on the

* The amortisation of debts was in any case beyond the capacity of the financial machinery of the co-operative credit movement.—(Central Provinces Provincial Banking Committee Report, paragraphs 1471-1472.)

The Committee have great doubts whether co-operation will ever supply a complete solution by itself even after these recommendations are carried out.—(Bihar and Orissa Provincial Banking Committee Report, paragraph 243.)

basis of strengthening and supporting the Mahajan, securing his fullest co-operation under controlled conditions. The result of the existing method could be seen in the operations of the land mortgage banks reviewed by the Provincial Committees. The disadvantage would be in many directions. There would not be that spreading out of risk from the primary borrower up to the state, which lends its credit. This would reflect either on rates, or on the volume of credit, or on both. Those, who would call the programme, as set out in this chapter by me, as ambitious, would do well to remember that it involves absorption of men and money in the district and to that extent gives not only strength, but offers a smaller total task than in the case of those, who work on the basis of hostility and exclusiveness towards the local Mahajan. If India is seeking little models, which would adorn administration reports and be available for being shown off to foreign or hostile critics of Government, the old method would certainly do. But, if real and solid results have to be secured, it is along the path of adjustment and conciliation, involving constructive work from the bottom upwards and an infinite amount of hard labour for every one.

There are two sets of problems, which have to be determined. The first is the question of the initial value of land. It has been suggested in several Provincial Reports, that Government should give the assistance of a special officer for valuation purposes. Valuing land is one of the most difficult tasks and valuing it, when it is going to form the security for loan, would want not only great integrity, but great shrewdness and anticipation of the future. It is, however, a task not insuperable. The second problem is one, the solution of which is bound to offer greater difficulties. How is the money to be recovered? Is the instalment for interest and redemption of principal to be separate, or is it to be one equated instalment? Is there to be elasticity with regard to the payment of such an instalment, or is the payment to be strictly enforced? What is to be done, if the instalment is not paid regularly on due date? Who is to judge whether the borrowing party could be relied upon for such repayment and would have the ability to make such repayment? This has been the great stumbling block in the path of all agricultural banks, and so long as this is not properly considered, the experiment of land mortgage in India would not be more successful than other experiments hitherto adopted for giving succour to the cultivator. The bank may have to nurse a lot of its clients, who would fail to repay properly, or the bank may find itself compelled to exercise its rights and foreclose on the land. The Royal Commission on Agriculture say:—

"The evidence we received from Dawson's Bank showed that the authorities of that bank had also found that, once a man has obtained more favourable terms by the transfer of his debt to a less exacting institution, the tendency is for him to default in his instalments."

This is a result, the avoidance of which is essential in order to cause the minimum disturbance in the process of production. The avoidance could only be secured, if the selection of the parties taking loans is made properly.

75. In districts, where places are far apart, managers of land mortgage banks would have to work by the rule of thumb method and on the basis of valuation. They would not possess any personal knowledge of the parties. If the programme of land mortgage loans is put into execution through special land mortgage banks, I see many difficulties in the way of real progress. I would invite attention to all that the Royal Commission on Agriculture has said with regard to the Agricultural Bank of Egypt. There is the prospect of frozen loans and forfeited lands to contend with. Experience everywhere makes the danger in this direction quite real and I have earnestly searched for a means, by which this danger can be provided against.

I have also searched from the other end for a solution of the problem, by adapting to modern conditions the ancient system in India of loans through the Mahajan. It has to be adaptation, since it cannot be elimination. Apart from flagrant abuses and malpractices, against which measures are recommended elsewhere and are fully justified, the gravamen of complaint against the village Mahajan is the high rate of interest, which he charges. Can anything be done, by which the high rate can be brought down? For one thing, as the supply of credit increases in agricultural districts, there would be a gradual fall in the rate, but, if loans could be given at a controlled rate through the Mahajan, the evil of usury could be checked. The rate, at which land mortgage loans would be given by banks, would be a fixed rate, even if such loans were given through the Mahajan, and for the borrowers and for the amounts thus lent out, the rate would have come down except for underhand dealings and malpractices. There is, however, a tendency to exaggerate underhand dealings and malpractices in the relation between the moneylender and his client. These difficulties, in so far as they are inherent in human nature, would remain, whether a new system is adopted or not. They have been mentioned in connection with the Taccavi loans given by Government. They would have to be dealt with as they come.

GUARANTORS.

76. Pursuing this line of thought, I have come to the conclusion that the remedy lies in creating a class of guarantors from amongst the bigger Mahajans to start with*. The idea is that the bank lends out against the security of land. This security is valued by

* *Guarantors.*—Central Areas Committee suggests that gradual extinction of the indigenous banker can be averted if he were appointed "a guaranteeing agent of the Imperial Bank or a joint-stock bank."—(Recommendation No. 217, C. A.)

a government valuer and the value is checked or approved of by the guarantor. Of this value, according to rules, which will come to be framed, from 40 to 60 per cent. could be loaned against a mortgage document. The document would be between the bank and the borrower and would remain in possession of the bank. The document would provide for equated instalments covering interest and the repayment of capital. These equated instalments may be on the basis of 5-year to 20-year return as the case may be, and this would have to be determined by a careful analysis of the repaying power of the party. The arrangement between the bank and the party in this direction would have to be approved by the guarantor. The guarantor would, on his part, guarantee to the bank the repayment of the debt. Whether he should be responsible for the prompt and immediate payment of instalments not paid by the borrower, or, whether there should be elasticity about this, is a matter of detail, which would have to be worked out. There would have to be elasticity in the interests of the primary borrower, and there would have to be some room for play on the part of the guarantor, who cannot be expected to effect prompt payments of instalments. He is responsible for the final recoveries, which are covered by a solid security, but it is essential that his assistance should also be available for effecting recoveries. Whether this assistance should form part of his obligations as a guarantor, or, whether it should be secured in some other method and by some other inducement, is also a matter of detail.

Why should the guarantor undertake the risk of default by the borrower and agree to secure the repayment of the money? Why should the bank, on the other hand, have the interposition of the guarantor, who would get something out of it for himself, when they have the solid security of the borrower and if the guarantor defaulted, or failed in the meanwhile, what would the bank have against such guarantee considering that the recovery of the loan would be spread over many years?

77. The need for this combination is as much economic as psychological. For one thing, there is the money of the Mahajan at present engaged in rural loans. This money belongs to the districts. This money is earning a high rate of interest. In the operation of the land mortgage, full economic benefit would be derived in respect of those loans, which replace old debts at high rates. It is universally held everywhere, where the question of debt redemption has been examined, that prompt cash repayment would secure considerable reduction. Prompt cash repayment to the moneylenders would require moneys, which the machinery of land mortgage debentures is expected to secure. The economic consideration is that on behalf of the cultivating borrower, it is to be a large conversion operation,—conversion of the debt at a lower rate. Anything undertaken and done independently of the village Mahajan and in opposition to him, will not secure this result. On the other hand, if the Mahajan loses a source of his earning, he will throw in his full weight, which will militate against the success

of this scheme. Could anything be done, by which he could be enabled to make a sure income on his own money with considerably reduced risks to himself and with an enhancement in his position and dignity? The suggestion, therefore, is that the Mahajan should appear in the first instance as a depositor. He should put a fixed deposit for a certain sum,—a deposit, which could not be withdrawn until the loans, which he is guaranteeing, have been repaid. In respect of such deposit, he would be given a fixed rate of interest, and an attempt should be made to see that this rate is not very low. It may be as high as six per cent. In respect of this deposit, the Mahajan will have the right to be enrolled as a guarantor and to recommend loans from the land mortgage debenture funds in some multiple of his deposit, which may come to be fixed by the rules. This may be in the proportion of 1 : 5 to start with, but there is no reason why it cannot be more. The guarantor would scrutinise the loans, the value of the security, and would recommend them to the bank, which, on its part, would also scrutinise and in those cases where both parties agree, loans would be given, and on such loans the guarantor will be entitled to an over-riding interest or commission of one to one and a half per cent. As an illustration, if moneys could be then raised at 6 per cent. in respect of deposits of guarantors and debentures, assuming one per cent. to cover the expenses of the bank, the valuation, registration and mortgage charges, $1\frac{1}{2}$ per cent. will go to the guarantor, making it $8\frac{1}{2}$ per cent. in all. With a 1 : 5 ratio over his deposit, the guarantor will thus be able to make 6 *plus* $7\frac{1}{2}$ $(5 \times 1\frac{1}{2})$, *i.e.*, $13\frac{1}{2}$ per cent. While this figure does not by any means indicate the percentage, which the Mahajan might be making, it is still a compromise. The risks, the expenses, and the worry to the Mahajan in respect of these loans at least is considerably reduced and his energies are released for other activities, and I am persuaded that this might be an attractive thing. The bank gets the benefit of local knowledge and that selection of the borrower, having regard to his character and repaying power, at the hands of a shrewd local party, which no bank manager can bring to bear upon this subject. Such procedure is calculated to disarm the opposition. It ensures popularity for the scheme through the co-operation of all parties. It would do genuine good to the borrower by enabling him to economise over interest charges. Economically there is everything to recommend in this programme. But from the psychological point of view, it will mean the first attempt to bring the Mahajan in a definite link with the central money market. It will mean recognising his position in the district and strengthening his position, so that he still remains the respected man amongst his fellows, instead of being dislodged. For the cultivator, it means the hopefulness and prospect of removing the overload of debt relating to long-period. If it is the policy of the bank that foreclosures have to be avoided and the borrower's position should not be allowed to get worse, the Mahajan can help in this matter, as, apart from the initial selection, he can also exert much moral pressure against the cultivator getting into serious debt

outside. It will clear the atmosphere and it will put to the credit of the state a genuine measure for the welfare of those agriculturists, who are outside the field of the co-operative movement for any reason.

78. The proportion of loan, which the guarantor would be allowed to recommend and to guarantee, would depend on the method, by which the land is valued. If it is a conservative valuation and allowance has been made for possible loss, there would be two alternatives to consider. A larger margin can be kept, *viz.*, 60 per cent., or a smller margin can be kept, *viz.*, 40 per cent. The issue of the margin is of real importance in the beginning only, because as some instalments get paid, the margin automatically increases. Historically, values of land have risen and if the trend of affairs is such as to lead to a rise of land values, the smaller margin is recommended, instead of the bigger one. From the point of view of the bank, the deposit of the guarantor is itself the margin. Here again the percentage of such deposit to total outstandings would begin to diminish as loans begin to be given out, until the maximum proportion fixed by rules is reached. But with the passage of two or three years, the deposit amounts remaining fixed, such percentage would begin to rise. Whether the guarantor should be allowed to increase his loans to the extent to which recoveries keep coming in, is a matter of policy, on which no advice can be given at the present stage. Unless he is so allowed, the return expected by him on his deposit could not be maintained. It may be, however, possible to increase the proportion of 1:5 in the light of experience, if it is reported that there are no serious abuses. Where the loans have been made on the basis of automatic extinctions by annual instalments, the danger of total loss to the bank is reduced to a minimum. That such loss would not amount to anything like 20 per cent. indicated in the proportion of 1:5, is quite obvious. But the decision on this question must depend on the demand for loans from borrowers on the one hand and on the supply of available money, which can be put into this direction on the other hand. If the scheme is put into operation with the fullest co-operation of local officials and non-officials and with those essential changes in law and procedure, which would tend to render the security of the bank complete and the costs of the mortgage as low as possible, and reduce to a minimum the cost of recoveries, I would expect that land mortgage transactions in the districts would come to be made more and more on this basis. It would further release some funds, which are at present engaged in such transactions and direct these funds towards short-period finance. The demand for these loans is not likely to be small and may exceed the ratio of 1:5 of the guarantors' deposits, which may be forthcoming. There is a very definite limit to such deposits, but it is not unlikely that some moneys, which are at present coming out of the districts for investment at the centre, may be retained in the districts by the temptation offered by the scheme. After all a capitalist would have to find a few

reliable cultivators, who are anxious to borrow, and he would have to keep watch on them in order to secure enrolment as a guarantor and earn on his money the high rate, which the guarantor would secure.* There will be many variations in practice in different provinces, and there will be many adjustments required, as the scheme makes progress, varying according to the peculiar conditions of the different localities. The banks, through whom this work will be done, will also have valuable constructive suggestions to make from time to time, and it may be expected that a body of experience will grow up, which will enable the scheme to be put on a sounder basis than when it starts. The merit of the scheme in my mind is that it does not involve any obvious or serious economic handicaps, and it secures for public funds the utmost amount of safety.

CONDITIONS REQUISITE FOR SUCCESS OF LAND MORTGAGE.

79. In order that the scheme should succeed, various alterations will have to be made in the Revenue Code, in the Record of Rights, and in laws relating to the transfer of land and holding. Special privilege would have to be given to the banks handling this subject in the matter of recoveries. The charges in the matter of law would have to be eliminated. The government officials will have to co-operate. They would have to realise that it is the primary object of the state to secure the welfare of the agriculturists, and that a scheme of this kind should not only be well received in official quarters, but actively encouraged. Difficulties unforeseen at the moment, but arising from routine rules and procedure, both in revenue and in civil courts, would have to be overcome, and this could not be done without energetic goodwill towards the programme, which has to be initiated right from the top.

If the scheme, after proper consideration, is rejected by the legislature, because of any inherent weakness in it, and some other alternative capable of accomplishing the same object is substituted, there would be nothing to say, but it would be disastrous, if a few things out of a composite scheme of this character are picked out and if the results are judged by the success or failure of these loose and isolated experiments. It would be better for the *whole* scheme being introduced in one district in each province instead of a few ideas applied to the whole province.

80. Long-term loans on land mortgage can only be given where the borrower has a clear right in the land. In provinces, where there is a ryotwari tenure, there will be no difficulty, but elsewhere the benefits, which are aimed from the means suggested, would not be secured. The Central Provinces Committee recognise this and say: "The fact that the existing law with regard to occupancy tenancy land gives the money-lending malguzar dangerously wide scope for getting possession of the land of tenant borrowers if he

* If more money is offered by guarantors deposits, the rate of deposit or the rate of overriding could be reduced. Adjustments of all rates would be made in the light of experience and response to the scheme.

desires to do so constitutes one more reason why facilities should be created with the least possible delay to enable tenants to acquire full rights in their land." The agriculturist must have a real property interest, which he can mortgage and not merely a tenancy either at will or under other precarious conditions.

81. Similarly where the right of the agriculturist is real, but where there are artificial restraints to the transfer as in the Punjab, the benefit would not accrue. Even if the banks were excluded from the operations of the Punjab Land Alienation Act, were allowed and encouraged to lend out under the scheme through the guarantor, and were authorised in cases of serious default to foreclose and deal with the lands, subject only to the restriction that lands could be sold to agriculturists, the value of the security would be less, for restriction reduces the value and makes the security less attractive from the point of view of the lender. When these restrictions come to be conceived in the interests of the agriculturists, the position of those, who are suggesting remedies in the interests of the agriculturists, becomes very difficult. I am opposed to most of these laws as being objectionable in principle to the free mobility of capital assets, which in its turn must prevent free mobility of money capital. It is impossible to reach any other conclusion on general grounds.

With regard to Bengal, which has a permanent settlement, the benefit from the scheme of land mortgage bank cannot be secured. This is neither the time nor the place to say anything about the permanent settlement, but it is for the people of Bengal to judge whether it has done them any good. I am not advocating a sudden serious change, which will deprive the land owners of what they are getting and bring more money to Government revenue. I am anxious to secure to the actual cultivator definite rights in the land, which he is cultivating, rights which are capable of being sold, and which have a capital value and a market. It is only where an asset in real property is created that the benefit by way of mortgage debt can be realised. This may not be possible without a radical change. It is recommended that this matter should be examined particularly with regard to the phenomenon of intermediate capitalisation.* Can more money be introduced in the rural districts of Bengal with absolute safety through the zemindars? Can the money rates be brought down all round, so that the benefit will reach the actual cultivator in some other way than by the method of land mortgage? In order to answer these questions, much more information than is available will have to be secured.

The Economic Doctrine of Diffusion.

82. In adopting measures to secure a reduction in the rate of interest all round, reliance will have to be placed on the economic doctrine of diffusion. Unconsciously this has been used with

*In view of this, the action of the Reserve Bank in helping and guiding the loan companies of Bengal becomes even more imperative.

reference to the claim that the co-operative movement has brought down rates of interest in the agricultural districts. The co-operative movement has given loans only to its members in limited quantity. Yet the appearance of a rival agency and the mention of cheap rates has had, it is claimed, a salutary effect on money rates all round. Another illustration of this doctrine is with regard to the claim of the Imperial Bank that the extension of its branches has brought down the rates for internal remittance. The creation of facilities for one class reacts on the whole field. It was the effect of diffusion which tended to raise prices in many countries when the currencies of some of the countries were disorganised, and there was an excessive issue of inconvertible paper. Valuation all round was effected more or less because of action taken in certain places. The bonds of economic life inside the administrative and geographical borders of the country are very much closer, and no action taken in one part of the country can be without its reaction in other part. A flood disaster in Madras or Bengal might apparently have nothing to do with Bombay, but it will affect Bombay through a thousand invisible causes. When the action taken, however, is in the locality itself, I expect the effect of the doctrine of diffusion to be much more direct and palpable. A new and additional shop cannot be opened in the shopping quarters of a city without the trade getting to know about it and to watch it carefully, particularly, when the article supplied is good and the price is very much lower than the ruling price in the existing shops. Even if the privilege of purchase in this shop is distributed carefully with discrimination and by tickets, the effect on the price cannot be avoided for long. Prices may not tumble down to the new level at once, but there would be a check to their upward movement. The more conservative and cautious shopkeepers will adjust their prices as far as they can within their means. They will try, in the first instance, to run down the new shop and to run down its wares. The process of this intolerant running down is itself a process of adjustment. Where an option is given to one of these shopkeepers to acquire his stock from the same source as the new shop and to sell on the same basis as the new shop, consistent with his profit, the temptation would be great and sooner or later it would be availed of. If such a process is hedged round with regulations, it may be evaded, if the shop-man can continue to get a higher price by staying out. The doctrine of diffusion thus works through invisible ties and through the trait of human nature, which emulates, even while it condemns a rival. Economic adjustment comes through the formation of opinion, which again comes through reliable and definite information as to where one stands. In the matter of the scheme of the guarantors, which I have formulated, I proceed on the basis that example is better than precept. The Indian Mahajan or Sowcar is probably amongst the shrewdest of all classes in India, but even he would resent being preached at. An illustration that things can be done better in the future than they have been done in the past would be more useful. The main idea is then to rely on increased supply

of credit on a certain basis and to expect that the reaction of the new system on the larger old system would be big enough to have a beneficial effect in keeping general interest rates down.

The scheme envisages raising of funds on the cheapest basis possible. The laws of money and credit involve the lowest rate for the best security. The state would lend its credit, because there would be a definite and ascertained value in the assets, which would cover the loan. The increase in the volume of credit by this means would tend to bring down rates. The adjustment would, however, be with local machinery with the least disturbance and smoothly. Moneylenders would still be there, including the agriculturist moneylender, but they would be reconciled to the change. It is in human nature easier to accept loss through fluctuation in price, than through a direct deprivation. Where persuasion and preaching fail, competitive offers at a lower rate would have signal and instantaneous effect. The diffusion would take place not merely regionally, but with regard to short-term and all other money contracts, including, it is hoped, loans in kind.

Contrast the latest co-operative figures of land mortgage banks:—

Number of banks	66
Membership (Bengal's figure not available)	12,043
	Rs.
Working capital	49,64,000
Average of—	
Working capital per each bank	75,210
Working capital per each member	356

CHAPTER VII.

Marketing: Warehouses: Pools.

83. In dealing with the economic position of the cultivator, an indication was already given of financial weakness and of his disabilities in connection with the disposal of his produce, arising through such weakness. Money economy has been established everywhere in India, and there has been a growth of commercial crops, amongst which must be included food crops, that are too valuable from the point of view of the cultivator for his own consumption. A cultivator may be efficient as an agriculturist, but would suffer, if he is lacking in the art of disposal of his produce, or in safeguarding the money, which comes to him, or, again, in spending it on the different articles, which he needs. His isolation from modern economic conditions has inflicted on him a disability, which time and the process of education and the increase of communication, by which he is enabled to know and understand what is going on in the world, would help. In the meanwhile the question is asked, whether anything could be done to help him.

I agree with the need for orderly marketing. The inability of the farmer to sell as and when he likes, and the compulsion from his own economic position to sell off earlier than he would like, or at a moment when everybody else also is equally obliged to sell, when the market is depressed, are evil features of the present organization. But the factors affecting this are many. There is the question of revenue collection at a certain time. There is also the question of the needs of the farmer himself and the fact, that in most cases he is a borrower. There is also the fact, that often the party interested in the sale is his creditor and that he is also the purchaser, who, with his larger holding power, gets the produce cheaper, holds it on, and sells in an improved market. There is further the fact, that the small dealer, who is the buyer from the farmer, has a limited holding power himself. He has limited storage accommodation and he has no means of raising regular or large credits, either on his own name or on his stock. This must react on the farmer also.

84. It is given out in the Provincial Committees' reports, that in some places in India, the cultivator takes crop loans, and one of the conditions of such loans is, that the disposal of the produce takes place either through, or, by the creditor, sometimes even at scheduled rates, or at rates much lower than could have been secured by the cultivator himself, had he been financially independent. The cultivator loses because of his inability to hold out. His needs coincide with the needs of fellow cultivators, and there is the spectacle of more sellers than buyers at particular times, when the bulk of the produce gets out of the hands of cultivators into the hands of the traders. If he is enabled, by borrowed money, to wait for a better market, he has to pay high rates and several other charges.

The difficulties of the agricultural producer also exist in other directions. It is a mere truism to say, that, where a commodity is dealt with in the wholesale market, which in its turn is influenced by the world market of such commodity, the price, which the primary producer can receive, is the wholesale price less charges. The word "charges" covers a multitude of sins, but can after some controversy be fixed in any particular case. Does the agriculturist producer receive the price, when he sells his commodity, which answers this test? In other words, does he receive a competitive price? The competition in the wholesale market is assumed to be fairly keen. Is this competition brought to his door, or is there any modification thereof? There was evidence in the Provincial Committees' Reports, that in many places the purchase price of the day was fixed in the interior markets secretly amongst the buying agents and local traders. At many places the local traders play a subordinate part to the buying agents of the wholesale firms. These buying agents have been known in some places to make their purchases by turn and to oblige each other by not bidding against one another. In other words, they purchase at a price, if the cultivator is willing to sell it. Competition is thus considerably modified. In still other places, the most important buyer dictates what the market has to do, and his agent generally gets others to accept those conditions. The Madras Committee specifically pointed out the disabilities of the sellers of tobacco and their difficulties in the face of a monopolistic buyer. Not only is the agricultural producer thus unable to receive full competitive price, but is penalised in the matter of weight and other charges arising out of delay. He is subjected to hardships, some of which are avoidable. Divested of technical details and discussions with regard to varying practices in different staple commodities in different parts of the country, the fundamental economic question is, does the cultivator receive the full fruits of his labour, or, by various causes and through various agencies, is he made to pay heavy discounts? That the cultivator's position is extremely weak as a class has been admitted and strikes every observer. His weakness in this direction, it should be also recognised, would eat up and absorb every additional benefit that he might receive. Intensive cultivation would have to be resorted to in India on economic grounds before long, in order to maintain the cultivator even in his present poor standard, and in order to produce more to feed the increased number, who have to depend on the land, in the absence of other suitable outlets. But, if the value of the larger production does not reach the cultivator through any cause, his condition cannot improve. If the factors, which lead to his financial weakness in disposing of his produce, were to be intensified, the hope of improving the condition of the agriculturist would have to be abandoned. The problem, therefore, is of the greatest importance.

85. The majority Committee rightly dwell on the fact, that there are many points to be considered in connection with orderly marketing. Their conclusion is: " The essential and ordinary functions

of marketing according to the preliminary report of the International Institute of Agriculture and other writers on Agricultural economics are :—

(1) Collection and assembly.

(2) Transportation.

(3) Wholesale distribution.

(4) Retailing.

(5) Risk-bearing.

(6) Financing in all stages.

" We as a Banking Committee are concerned only with one aspect of the subject, *viz.*, finance, in making our recommendations. But we cannot deal with the question in a satisfactory manner without expressing our views on the other factors which promote orderly and profitable marketing of agricultural produce. Without attempting a detailed examination of these factors we express our concurrence with the following recommendations of the Royal Commission on Agriculture in India and the Provincial Committees for improving and organising the agricultural marketing :—

(1) Improvement of transport facilities including rural communications. We must not be understood to mean that we recommend an indiscriminate substitution of bullock carts by lorries.

(2) Lowering of railway freight rates and grant of other railway facilities.

(3) Establishment of regulated markets under Provincial Legislation.

(4) Standardisation of weights and measures.

(5) Adoption of measures to secure improved quality of produce by organisations amongst buyers and traders.

(6) Promotion of co-operative sale societies and other suitable organisations for purposes of sale.

(7) Holding of auction sales by agricultural departments to secure increased price to the cultivators who produce improved varieties. We advocate that the Government should not make any profit for themselves from such sales.

(8) Carrying out of market surveys.

(9) Appointment of expert marketing officers on the staff of the Agricultural Department."

While I agree with the Royal Commission on Agriculture and the Provincial Committees and the majority, that these measures are calculated to help the agriculturists generally, I feel that it is necessary to analyse the problem a little more closely. There are technical matters in connection with the organisation of marketing, which need attention. Markets should be organised with reference to the convenience of the sellers, and not buyers. In the case of agricultural produce, the sellers are many, and they are the active

section of the community. They are also comparatively backward and in a position of financial weakness, and they deserve the greatest measure of protection which the State can give.

In order to improve the condition generally, more information is required, much more than is possessed at present. Such information, when it is collected, would have to be properly examined. Protective measures of all description would emanate from such examination, and it should be the business of some responsible minister in every province to see that everything, that can be done, is done. Permissive legislation would have to be on the statute book to avoid delays, and co-operation of various sections of the population concerned with the better organisation of market would have to be secured.

86. The proposals to have marketing officers and to have surveys of markets, which have emanated from the discussion of the Committee, deserve support, but also deserve a warning. The creation of new administrative posts is, in the machinery of the state, like a comfortable walk along gently sloping road, but the utilisation of these posts for the purposes, for which they were created, and scrapping them, if they do not serve these purposes, is an uphill task. The mere existence of a marketing officer cannot do any good, unless there is a well defined policy, the ends of which such an officer could secure within the field, which is entrusted to him. What is it that the state wants to be done with regard to the cultivator? Is it that the cultivator should get the whole of the fruit of his exertion? Is it that he should be free from the moneylenders and those who finance him for his crops? Is it that the middleman trader, who purchases his produce, is to be eliminated and the cultivator by himself, or in association with other cultivators through a common organisation, is to reach the final purchaser in the principal markets? Is it that in the principal markets, some check is to be put on the wholesale buyers and exporters, who have the advantage of the present situation and try to rig the market for their own benefit, who, when they intend to buy and, being ultimate buyers, yet hammer the market at crucial periods in order to depress the wholesale price and in order to bring down the price, which the cultivator receives at the interior markets? From the point of view of the small men, there are many evils and, unless the intention of the state has been made clear as to which of these evils and to what extent they would desire to cure, the task of the marketing officer and the marketing boards would become difficult. It is a commonplace in the life of social organization that when a new machinery is created, the strongest take advantage of it and turn it to their use. They are prepared with the information, before the machinery comes into existence. They understand its full economic effects. They are quick to adjust, and they have the will and the power to adjust. The poor are left behind. There would be no justification in interfering with the field of marketing as it is, in spite of its many defects, or for incurring expenditure from public funds, unless the objects were clearly defined.

The problem, therefore, is a complex one and could not be solved by any simple methods. The scheme of the Committee is that there should be an economic survey in each province and that, as a result of these surveys, marketing officers should be appointed in each province, that licensing boards should be set up for licensing warehouses, that the warehouses should be set up, that arrangements should be made with banks including the Reserve Bank to accept the warrant from these warehouses and that at such warehouses grading and pooling should be tried. It, therefore, means that skilled and reliable grading officers have also to be found and employed at public expense.

87. This is an ambitious scheme and it would cost a lot of money, and should it go wrong, it would be fatal to the taxpayer, whose money would be spent. I wish some enterprising economist will make a calculation of the amounts spent on departments of agriculture, in the provinces and at the centre, on the Directors and Ministers of Agriculture, on their tours, on agricultural education, surveys, enquiries, commissions, research, foreign deputations, experimental farms, demonstrations, exhibitions, fairs, etc., and will then assess the benefits derived from such expenditure. I am sure the desire to spend money in the name of, and for alleged benefits to, the cultivator will in this event be severely checked. The arrangement of things in this country has been called primitive. A primitive country must be primitive. Elaborate arrangements through a staff of officials is good in countries, where the state can afford it, and also where the literacy of the people enables the officials to disseminate information and to secure their willing co-operation.

I utter this warning because of India's poverty, since I find that, in the United Kingdom, by contrast amongst the richest country in the world, efforts are being made in the same direction, and the position of the cultivator has been summed up by Dr. Addison, Minister for Agriculture, as follows:—

"A system that would develop a sound, self-supporting agriculture had to be provided.

"Agriculture was the only great industry in the country where the producer was helpless. It was noteworthy that this industry, which produced £250,000,000 worth of foodstuffs every year, and could produce half as much more, was the only big industry where the producer had not the slightest idea of the amount his produce would realise.

"There were thousands of hard-working producers in the agricultural industry, marketing their goods as best they could.

"The Labour Party said that if they were to obtain a fair price there must be an organisation skilled in marketing, which would market their goods for them and secure for them as full and adequate a return as they could possibly get."*

* "Hindustan Times," 11th April 1931, from the letter of its London Correspondent.

The problem thus exists elsewhere, where expensive experiments could be made, because the state can afford it. If parallel organisation in India is set up merely in imitation on the English model, the results may not be satisfactory.

88. It has been rightly recognised that the improvement must be sought from the general improvement in the condition of the cultivator, in his enlightenment and mental equipment, in the promotion of the spirit of self-help in him and in encouraging him in seeking co-operation of his fellows. Such co-operation can be broadbased only on the strength of opinion, and such opinion can only arise when the cultivator understands his plight, reasons leading to it, the means of improving it and the importance of joining hands with others.

In the meanwhile technical details with regard to marketing, particularly in those directions, where it is the function of the state, must be attended to. The foremost amongst these is the standardisation of weights and measures. The failure of the state to secure uniformity of weights and measures in India is inexcusable. It is not that the government policy is one of non-interference in economic revolution. That its action should have been slow with regard-thousand miles of railways, the introduction of money economy and the development of commercial crops, of import and export trade, and in many other directions, can be seen bringing about an economic revolution. That its action should have been slow with regard to weights and measures, I have never been able to understand. The discussions on this subject, which have been long and sporadic, bring up the consideration of the subject before the various Provincial Governments and before the Government of India. It is high time, that drastic action should be taken in this primary obligation of the state, before any elaborate schemes in the interests of the cultivator are taken in hand.

The existence of a large variety of weights and measures cannot benefit those who are economically or financially weak. Since disabilities of the agricultural producer have been admitted all round, it stands to reason that he is the sufferer. Similarly, on the other side, the retail buyer and the consumer is the sufferer. It is not possible that the middleman trader could suffer for long and yet carry on his trade. He knows where he is, no matter what the standards are, and he comes out on the right side. He, through his associations, might even oppose standardisation, though it is fortunate that organised commercial opinion in India has always been in favour of standardisation. The community as a whole, therefore, does not benefit. Nor does the state profit by the continuance of this state of affairs.

I am very doubtful with regard to the utility of the proposal of standardisation inside a province. The province is a political unit, and, as such, must be considered in many respects, particularly with regard to the enforcement of any measures of standardisation in practice. But, the province does not always reflect the economic unit. Markets have over-run provinces. The

cotton market of Bombay has dealings in the product of four or five provinces. If there is going to be a change in any province towards standardisation, it is not, that, the smaller the change, the better. The choice is between change or no change. Once the policy of change involving standardisation has been accepted by the state, it is necessary that the change should be made not by stages, but once for all. It is necessary, therefore, that the standardisation should be on the basis of all-India. That should be the goal. As there are disadvantages in reaching that goal by several stages, attempt should be made to introduce uniformity all round. There would have to be considerable prior activity on the part of the state in order to carry through this change. This activity would have to be undertaken for once, and if the work is to be done well, a special organization would have to be created on the model of the census organisation.. It is not possible that the difficulties should persist for long. The primary thing is the dissemination of the information as to the change and to prevent fraudulent middlemen from taking advantage of the ignorance of men, who have to deal with them. Special offences would have to be created in the legislative measures introducing uniformity, in order to prevent abuse and in order to get the change-over brought about smoothly. This is a technical measure in which the individual cultivator is helpless. The state alone can act and the primary cultivator is entitled to this protection, which is long overdue.

The cultivator also suffers, in so far as he seldom receives adequate increase in price, when he produces material of good quality. The market is levelled down to the common quality and the incentive to the production of better quality is destroyed. But, on the contrary, the slightest excuse is good enough for the buyer to raise difficulties about the quality, which the agriculturist is offering, whenever he can raise the question.

In the other measures mentioned by the majority Committee, the improvement of transport and a definite policy in the matter of the railway rates have already been included elsewhere as part of a larger measure of agricultural policy.

89. In principle, the co-operative sales societies are calculated to help the cultivator over many of the difficulties, which he is experiencing in marketing. There are greater chances for the success of the cultivator accepting the co-operative principle in this direction, than in the direction of co-operative credit, but experience in several provinces has not been satisfactory. This is because, the co-operative sales society must command a sufficient turnover in a market, before it can influence the market. A sufficient turnover is also required to keep down the expenses. The manager, who would have to be honest, and in whom the members would have to have confidence, must possess business ability and skill, not dissimilar to that, which the smaller trader can bring to bear. The work of the co-operative sale society must be continuous year after year, and there should be no uncertainties about its operations. Its relations with the local small traders

should be friendly in order to ensure its success. Lastly, it should have adequate and proper finance. I do not desire to discourage in any way an effort in the direction of organising co-operative sale societies, but economically the position, which the co-operative sale society would have to contend against, is the same as the position of the local small trader, and much useful light might be derived by studying that position. The local small trader, who took the produce from the agriculturist, and who sent it to the principal internal markets for sale through the commission agent, finds himself in difficulties now. He has often no connection with, or, access to, the Imperial and other large banks. He has to contend against the competition of more powerful parties, better equipped with finance and with buying orders in their pocket. These parties are helped with cash credit and actually bring cash down with them, whereas the mechanism, by which the small trader put himself in funds, was the hundi on his commission agent at the market. The conflict between the old and the new system has thus been carried on right in the heart of the country, and the small trader has had the worst of it. The hundi as an instrument has been ousted in a large measure. People, whose purchasing capacity in the agricultural districts appears to be unlimited, have come on the scene, and they have dominated the situation. It is undoubtedly going to be very difficult to put back the hands of the clock, but, if it is difficult for the small trader to hold his own, it could not be easy for a co-operative sale society composed of primary producers.

90. The purchase is taking place on the strength of unlimited cash credits secured at the centre. Firms like Ralli have a system of their own. It is unfortunate, that no particulars of the operations of such firms were brought before our Committee. The Japanese, who were recipients of Indian cotton manufacture at one time, are now sending cloth to India, and for this cloth they purchase Indian cotton. They have eliminated the Indian middlemen between, and their purchases now take place right in the interior. These purchases are financed by Japanese banks, generally through a cash credit, which they have arranged with the Imperial Bank. They are financed, therefore, with Indian money, but to the disadvantage of both, of the Indian producer and of the Indian trader. Large jute firms and large cotton firms are similarly assisted to reach right to the interior. Purchase and sale is an economic relationship, but there is an under-current of conflict between the purchaser and the seller, and in such conflict the Indian producer stands at a terrible disadvantage. This disadvantage could be removed, if the local trader was strengthened. The local trader is also powerful compared to the individual farmer, but there may be many of them on the scene, and the principle of competition may operate more than it does, and in any case he is not as powerful as the buying agent of large foreign firms. I am not convinced, whether the programme of marketing organization, which is being projected, will bring about this result or not. One of the proposals is, that the markets should be

established in the interior, where they do not exist. This will certainly be a step in the right direction. Warehousing costs and middlemen's and various other charges are bound to be less in an interior market than at the central market. Whether the establishment of markets in the interior will assist the small Indian trader, who has lost ground, is a question, which far over-runs the limits of this enquiry, but it is a question, which I should like to raise for close examination before elaborate schemes are sanctioned.

The proposal for setting up a Lincensing Board, which will license warehouses in various places and make rules, under which such warehouses will operate, is one, to which I have no objection, provided it can be done at a very limited cost.

91. Warehouses are necessary in the districts. Whether they will assist the primary producer is, to my mind, extremely doubtful, but they will assist parties dealing in agricultural produce in the interior to hold on for a better market. They would enable less to be thrown on the market in the beginning of the season, and the withholding of some of the stock would prevent prices from sagging, as they now do. Stabilisation of prices and less fluctuation would be a good thing for all parties concerned, and would have a favourable reaction on the agriculturist himself.

The other important consideration in the case of staple commodities is central markets, and the organization of these central markets and their rules. It would be beside the purpose, at this place, to examine how far these central markets, where forward sales can take place, are utilised by foreign interests, who are purchasers in this country, to depress the market so as to enable their purchases in the interior to be made on the basis of a lower market price. Indian interests in such cases are all sellers, and if the balancing force of the buyer is removed and the buyer can artificially assume the position of the seller, the support to the market is gone. Less visible stock at the centre by means of warehouses in the interior, which will hold stocks, would therefore help.

The position of the warehouses should, however, be considered on economic grounds. No warehouses can come into existence, unless the commodities could bear the costs involved. The costs involved would depend on the period of warehousing and also on the season, it being doubtful whether the warehouse could be used all the year round. It would be necessary to create a definite set of rules in respect of warehouses with regard to the responsibility of the warehouse company, with regard to insurance, with regard to the method of collecting the warehouse charges, with regard to the nature of the warrants, which would be issued, the method, by which the banks would make advances against such warrants and by which they would recover the advances made by re-indorsement of the warehouses receipts, when their debt is discharged enabling the warehouses to give delivery.

We had not these data before us. Another question that was discussed by us, was, who should erect the warehouses. It was suggested, that the state should make advances for the erection of warehouses by co-operative societies. It was also suggested, that the railways should engage capital in this business, as it would have the incidental advantage of cheaper handling charges, by involving only one removal from the goods shed or to the goods shed, instead of several removals from one merchant to another. It was also suggested that the joint stock banks getting their licenses from the Licensing Board, should engage in this business. The whole question of the working of these warehouses which must cover the costs and secure adequate profit, is a matter, which would require to be experimented upon. That the trade will benefit therefrom as well as the producer, who comes behind the trade, need not be doubted, but, which set of present charges would be reduced, and whether the additional charges for warehousing could be borne, *i.e.*, could be compensated for by the rise in the price, or any other advantages, is a matter, which will need closer examination in future with reference to each individual locality and each individual commodity.

Warehousing is an economic necessity, and those, who use the warehouses, should be prepared to pay for them, and their willingness and capacity to pay should be carefully examined before such warehouses are set up. The advancing of funds by the state cannot be justified except in an experimental and pioneer stage. Railways, doing this work and engaging public funds on them, would not be justified, because it will take them outside their normal function as carriers. Their handling of activities entrusted to them, such as railway workshops, railway coal mines, &c., has not been such, as to excite confidence in their ability to help in this direction by capital expenditure of their own devoted to warehouses. The co-operation of railways should, however, be secured for leasing out lands within the railway areas and near the station, wherever available, and for transport and handling of goods to and from the warehouse.

92. The question of grading of agricultural produce arises in connection with warehouses. It has been suggested, that grading should be assisted by the state through properly selected officials, who would be employees of the Licensing Boards. I am not in favour of incurring expenditure of public funds in these directions, except where it is to help in an experiment and to establish a model. On the possibility of pooling the produce by the co-operative sales societies, or on a commercial basis in the warehouse, the Provincial Committees are very diffident. If the produce were pooled, the power of the seller increases enormously as against the buyer. In India, the reverse process is taking place, *viz.*, that the buyers are larger firms than they were before, and fewer of them at many centres. The pooling of agricultural produce for purposes of sale on a larger scale would more easily eliminate the middleman than the small co-operative devices, which are sought to be established in this country. A pool can have its

own machinery and can appear in the central market as and when it likes. It can stay away from the market and actually influence it, if it is very large. The chances of a pool being established in India in connection with any commodity for any district are small. If it is a business organisation on a voluntary basis and involving many participants, it cannot be expected to emerge. A pool would have, therefore, to be established from the top with, and under, the authority of the state. It would be an experiment in socialism, the success of which will depend on many factors. It will depend on the wisdom of the officials of the pool and on their honesty as well as their competence. The jute corporation, which was suggested by the foreign " experts " with a view to stabilise prices and regulate production, belongs in my opinion to this category. It is deserving of examination, because the best minds of this country were also groping for a solution in this direction. Mr. C. R. Das had a scheme prepared on these lines and had discussed it with me in 1924. He was obliged to abandon it, when I pointed out, that before the scheme could operate, it would be necessary to secure legislative sanction behind it, and it would be necessary to provide against combination of foreign interests, both as buyers of jute for local consumption and as shippers helped by foreign banks.

If a pool is to be established in India under the guidance of the state, which would deal primarily with selling, but would also have something to say about the quantity produced and the area engaged in such production, jute, which is India's monopoly, probably offers the very best field. For reasons, which have to be investigated, the jute producers seem to be economically in a weaker position than any other producer in India. Every other commodity rose in value during and immediately after the war and derived the benefit of the boom, except jute. This is due to the very strong position of the buyer and correspondingly weak position of the seller. It is, however, not possible within the compass of this report to frame a scheme of a pool applicable to jute in all its details, and indeed, it would be useless to do so, until the policy behind such pool is carefully defined and is accepted by the state.

CHAPTER VIII.

The Co-operative Movement in India.

93. The progress of the co-operative movement in various provinces has been reviewed by the Provincial Banking Committees, and there does not appear to be much in their recommendations on this subject, to which the Central Banking Committee can add. The angle, from which the position of the co-operative movement needs to be examined here, appears to be the place of this movement as a financing agency for rural credit, possibilities of extending its usefulness as a nucleus of thrift institutions in the country, and the relation of the movement with other agencies.

The co-operative movement has been now in the field for over twenty-five years. It has made progress, over which satisfaction has been expressed in some quarters and dissatisfaction in others. It has been assisted from the top. There has been a proper official machinery for the advancement and regulation of the movement. The annual expenditure incurred by Government on the movement in various provinces has been as follows:—

Statement of expenditure on the working of the Co-operative Credit Departments in some of the provinces.

	1928-29.	
	Rs.	
Bombay	5,55,000	
Punjab	10,93,000	
Ajmer	38,700	
Central Provinces	2,77,778	(net cost to (Government.)
Madras	8,89,000	

In the other provinces, particulars are not available in the Annual Report of the Working of the Co-operative Movement.

94. The progress of the movement had been reviewed by the MacLagan Committee in 1915, and various recommendations for improvement were made. It has further been examined by the King Committee in Central Provinces, the Oakden Committee in United Provinces, the Townsend Committee in Madras, and the Calvert Committee in Burma. Other credit agencies came before our Committee without any previous survey. In many cases even after the Provincial Enquiries, wide gaps remain to be filled up in the information, which is available about other credit agencies, but in the case of the co-operative movement there is very little, which is not definitely known for those, who take interest in it. Its machinery

is ready, and the experience of so many years has now disclosed the elements of strength as well as weakness in the movement.*

The working of the movement is also reviewed by the Agricultural Commission. A Provincial Report is published every year. Registrars of Co-operative Societies meet. There are co-operative conferences. There are co-operative institutes and there are journals. Many non-officials are, in some capacity or the other, associated with the movement, and if the movement suffers, it is not for lack of publicity or patronage.

The progress of the movement has been greatest in the Punjab, Madras and Bombay coming thereafter. There may be many explanations for the phenomenon, that it has not thrived equally in other provinces.

Beyond what has been said in the Provincial Committees' reports, there is very little of importance relating to its internal structure and correlation of its various parts to each other, which the Central Banking Committee can usefully indicate.

The Royal Commission on Agriculture, and all recognised official opinion, look for solving the problem of rural finance in the extension of the co-operative movement. Bringing cheap money to the door of the borrower and increasing the volume of credit available, are fundamentally sound maxims. If the co-operative movement by itself can achieve the result of relieving the agriculturist from his debt, which is being borne at a heavy rate, and of securing for him all the finance, which he would need, the search for other measures would be rendered futile. Without decrying the good work of the co-operative movement as far as it has gone, it is necessary to point out, where and how far, it falls short of the actual requirements.

95. The question to ask would be: can the co-operative movement ever replace all other agencies and have the field to itself? Can it even within a reasonable time, say the next ten years, be

* "The Committee, while not suggesting that more rapid progress should have been made in these various directions *anyhow*, draw the inference that if the movement is to continue on sound lines, it must take a very long time before it can draw a majority of people of limited means within its orbit, and that therefore it is futile to expect that an early and rapid improvement in banking and credit facilities through the agency of the co-operative movement alone can take place."—(Central Areas Provincial Banking Enquiry Committee's Report, para. 109).

"The extensive survey of indebtedness in 511 villages of Ajmer-Merwara shows that the co-operative movement financed the rural population to the extent of only 8·6 per cent. of their indebtedness. Intensive enquiries in certain selected villages in Ajmer-Merwara, North-West Frontier Province and Delhi indicate that of the total indebtedness in rural areas, only 6·6 per cent., ·26 per cent and 5·8 per cent. respectively, were financed by the co-operative movement."—(Central Areas Provincial Banking Enquiry Committee's Report, para. 107.)

"Among other signs of internal weakness may be mentioned, the tendency of solvent members to repay advances and to sever their connection with the movement."—(Central Provinces Provincial Banking Enquiry Committee's Report, para. 1398.)

expected to embrace within its fold even 50 per cent. of the agriculturists in the country? In order to answer these questions, all factors, which prevent the growth of the movement, its popularity, and the public confidence, which the movement secures, would have to be examined.

The registration of new societies is in the hands of officials especially appointed for the purpose, and in every province a certain number of new societies are being registered every year. It is for the protagonists of the co-operative movement to explain, why more societies are not being registered, and whether the limitation comes from the inertia of the staff at present specially engaged and charged with the registration of the new societies. It is for them again to explain, why more members are not joining the existing societies. I have not heard from the most optimistic supporter of the co-operative movement anything, which would justify the expectation, that progress will be made on a scale, which would embrace a moiety of the agriculturist population in the next ten years. Looking at it from the point of view of the principle of unlimited liability, it is open to doubt whether the full implications of this principle are realised by those, who join the movement. As education spreads, I do not know whether adherence to this principle will be strengthened. Outside agriculture and in private life, few men will be found willing to stand guarantee to an unlimited extent for the debts incurred by their closest friends and relations. I cannot help thinking, that for debts incurred by others, to ask a guarantee that would take away everything from a man under a certain eventuality, is to ask too much from him. The temptation to borrow and to secure loan at a low rate is undoubtedly irresistible, but whether the principle of corporate responsibility operates in practice, and whether members bring to bear on the work of the society that vigilance in the interests of the society, which alone would justify this principle, I am not in a position to say. There are arrears, in all provinces, of payment of interest as well as of instalments. These arrears are heavier in some provinces than in others. Public opinion amongst the members is obviously not strong enough to compel prompt and regular discharge of the obligation of each member for the repayment of his instalments. The forces for laxity must have outweighed the forces for enforcement, if the arrears are considerable. I shall let the Royal Commission on Agriculture speak on this subject. "For these disquieting conditions there are several causes, of which lack of training and of understanding of co-operative principles is the most important. The democratic principle is not so potent a force in checking abuses as is sometimes supposed. Members take insufficient interest in the working of their society; they exercise little restraint over their president and committee, and hesitate to evict from office an incompetent or dishonest neighbour. The office-holders, on their side, dislike incurring the unpopularity attendant on stringent action against recalcitrants and the recovery by legal process of overdue debts.

The calculated inertness of the two parties all too frequently leads to stagnation and dissolution."*

96. I do not wish it to be understood, that I deprecate or underestimate the moral value of the principle of unlimited liability wherever it is accepted after an understanding and enforced by local public opinion of the members. But the more it is considered, the more it seems unattractive from the point of view of the solvent agriculturist, who is either not in need of money, or can get his money on suitable terms without standing in the position of a guarantor for other people, over whom he has no control.

From the point of view of the members of the society, the unsatisfactory fact is, that the amount of money, which they can receive, is not limited with reference to their needs. It does not in all cases satisfy their needs. They have still to look for additional finance from outside. 40 to 60 per cent. of the members of the co-operative movement in the Punjab had contracted debt from outside. This would be true in varying degree of other provinces.† To what extent the co-operative movement merely supplements the financing of its members, which is done by another machinery, instead of supplanting it, is a matter of statistics. Such statistics, however, were not available. This severe limitation to the amount, which can be given to a member, must also act as a deterrent, as, after all, the borrower is not rendered entirely independent of the village Mahajan. There may be fullest justification for the restriction, because, the funds brought in by the co-operative movement from the centre, must be given out with due regard to safety, but it renders the position unsatisfactory from the point of view of the borrower. It is opposed to the principle of banking. A banker would prefer his client to deal with himself and would desire to give that client everything that he wants, provided he is satisfied about the solvency of the client and the security behind the loan.

97. *Public Confidence.*—From the point of view of public confidence in the movement, the position that was disclosed, was as follows. When a society is registered, a statement of the assets of the members is made out. These assets are valued, and the rules permit the credit of the society and of each individual member to be limited with reference to the total assets. There are rules providing for periodical and careful revision of such statements, but I understand, that they are not strictly enforced in all cases. These assets are further not secured in the hands of the society and are left free

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* Report, para. 373.

† "The situation is particularly disquieting in Beawar and Todgarh circle where the indebtedness to the societies is decreasing while the outside indebtedness is increasing."—(Central Areas Provincial Banking Enquiry Committee's Report, para. 118.)

"Not only the indebtedness of the co-operative members continues to increase, but their dependence on *outside* financing agencies for the satisfaction of their economic needs shows no signs of being eliminated in the near future."—(Central Areas Provincial Banking Enquiry Committee's Report, para. 119.)

with the members to deal with. Solvent members have been known to go out of the society and others have been known to have frittered the assets or dealt with them with other creditors. The primary societies have in some cases through these defects come to grief, and the authorities of the Imperial Bank have very severely criticised the value of joint pro-notes of primary societies and Central Banks as collaterals for loans. The weakness may not be universal and in some provinces may be confined to a small percentage of the societies, but it is a weakness in the system from the strictly banking point of view and it has led to severe curtailment of facilities, which the movement was receiving from the Imperial Bank. Leaders in co-operative movement are quite conscious of some of these defects and I am assured that steps are being taken everywhere to consolidate the position and to remove the defects. Societies are being classed into "A", "B" and "C", which classification itself shows, that some of the societies cannot maintain the "A" position. In this, even if watch is being kept and improvement is being effected, if confidence gets weakened amongst those, who are financing the movement, the progress of the movement would be slow.

98. The co-operative movement derives some finance directly from Government. But more important than finance is all the indirect assistance in the maintenance of the co-operative department and in the numerous concessions, which the movement enjoys. There is further the feeling that the moral authority of Government is behind the deposits with the co-operative banks and Government's action in paying off fully all depositors of the Co-operative Bank of Burma, which cost them Rs. 35 lakhs* has strengthened such feeling.

The Imperial Bank was one of the sources of finance. The depositors, both in the Provincial Banks and in the Central Banks, are the second source of finance. At present the position is, that, taking the movement as a whole, the amount of finance, which they have got from deposits, cannot be used by them. Such a position obviously cannot last and once the swing is on the other side, more finance would be wanted. It is, when the movement expands enough to absorb the surplus and comes for additional finance, that the question of public confidence will assume supreme importance.

While there may be no difficulty in securing the growth of the co-operative movement at the same rate, at which it has grown in the last twenty-five years, I see many difficulties in expecting its growth at a much more rapid pace. I do not expect to see the co-operative movement embracing within its fold even half the agriculturists in this country in the next ten years. I therefore see the need for other ameliorative measures, which would secure the benefit of cheaper finance to agriculturists not yet influenced by the co-operative movement.

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* Burma, para. 391.

So far as the movement itself is concerned, as indicated before, it is fundamentally a means of securing from the centre of the money market and from those, who have savings, cheap finance and making it available in the rural districts. To the extent to which it goes, it is doing good work, and I support the various measures, which have been suggested by the Provincial Committees, which will strengthen the movement, and which will secure reforms in its present organization. The Royal Commission on Agriculture say: "The main results achieved may be said to be the provision of a large amount of capital at reasonable rates of interest, and the organisation of a system of rural credit which, carefully fostered, may yet relieve the cultivator of that burden of usury which he has borne so patiently throughout the ages. Knowledge of the co-operative system is now widespread; thrift is being encouraged; training in the handling of money and in elementary banking principles is being given. Where the co-operative movement is strongly established, there has been a general lowering of the rate of interest charged by money-lenders; the hold of the moneylender has been loosened, with the result that a marked change has been brought about in the outlook of the people."

99. *The Co-operative movement as a nucleus of thrift institutions.*—The funds of the co-operative movement, in so far as the public is concerned, are drawn by two methods, *viz.*, the shares and the deposits. To the members of the movement, both these methods are open to the fullest extent and there are certain restrictions in detail with regard to non-members' dealings.

The deposit facilities offered by the provincial banks at the provincial capitals are useful, but they are by no means unique, as other banks also offer these facilities. They assume much greater importance when we come to the central banks, particularly in those places, where there are no branches of the Imperial Bank or the joint stock banks. It may be noted, that the rates offered by the Imperial Bank on deposits are lower than the rates, which are offered by the provincial bank, yet it is not unlikely that recent restriction on the part of the Imperial Bank, for which they derive justification from technical grounds, may have had at its bottom a substantial business jealousy with regard to deposits. There are 490 central banks and this is a very great public advantage for the creation of deposit facilities. Deposits are taken at the central banks from members as well as non-members. In fact in many provinces they are drawn more from non-members than from members.

The powers given to primary societies in practice to receive deposits from non-members are extremely limited, because the central banks are jealous of their competition, and it is also suggested that primary societies would not be in a position to make proper liquidity arrangements for the due discharge of these obligations, that they may not have the staff to deal with operations involving responsibility, and that they have not always the means of safe custody of funds. Greater facilities have been asked for

and have been recommended to enable primary societies to put their funds with the post office for this purpose.

Thrift certificates are issued by several provincial banks and by central banks in some provinces. These are issued in the first instance to members, but are also available for the public. By whatever name they may be called, they really represent in effect a long-term deposit.

100. So far as the savings of the members are concerned, there is a little fiction, and I have not been able to realise the importance of this fiction in practice. If the taking up of a share is compulsory on members, and if the placing of deposit is compulsory on members, as I believe is the case, the immediate practical effect is that, where such members are borrowers, there is a substantial reduction from the loan taken by them. While they may be used to such substantial deductions through the practice of the money-lenders, and may, therefore, acquiesce in it, it tends to perpetuate a vicious system. That such compulsory deposits are uneconomic, would be seen from the fact that arrears in the payment of interest and instalments take place afterwards at the hands of those, who make the compulsory deposits. It would be seen from the complaint, that the amount received from the societies by borrowers satisfies only a fraction of their needs, leaving a very large number of them to go to other credit agencies. I do not wish to disparage where thrift is a reality as from a member, who is not a borrower, and it deserves the greatest appreciation, when it was from a man, who was a borrower before, but had discharged his debts and had crossed the line and come over in the region of saving. But thrift figures of the co-operative movement are vitiated by the system of compulsory deposits, where members' deposits of this nature and the share capital of co-operative institutions are mentioned as security against outside borrowings, and when these figures are marshalled out in front in official reviews denoting satisfaction as a sign of progress in thrift, it is that their essentially uneconomic character needs to be realised. The co-operative funds are largely the funds from the centre moving down to the rural districts for being lent out. They do not represent in any very appreciable portion the savings of the districts themselves, because some portion of the members' deposits are not really their savings, but their borrowings.

The deposits are taken in the co-operative movement according to the needs of the movement, and not according to the needs of depositors. There are limits to the amounts, which could be borrowed, particularly from non-members. As there is a very great variety of rules in connection herewith in different provinces and also of discretionary permission, I shall not go into detail, but would point out that, if the co-operative movement claims that theirs are thrift institutions, there should be no limits to the moneys, which they would accept from the public in rural districts, where the public has such money to deposit. The co-operative movement falls very short of the ideal of thrift institu-

tion, in comparison with the post office savings bank from this point of view.

The other question in connection with the co-operative movement, which is of supreme importance, is the question of current accounts.* It is necessary to ask, which of the co-operative institutions are taking current accounts really from non-members and allowing them to operate on them by cheques. I am not sure if there are many institutions, which accept current accounts even from members. There is no sanctity about current account, except that it leaves the depositor free to get the money, when he wants it rather than at some arbitrary date when the deposit receipt matures. It is a very great convenience from the point of view of the depositor, whatever may be the difficulties from the point of view of the institution taking such deposits.

101. *The relation of the Co-operative Movement to other Credit Agencies.*—The progress of the co-operative movement has not been made, without exciting suspicion and jealousy in the minds of every other class of bankers. So far as the village Mahajan was concerned, this was inevitable as it was to supplant him that the movement was started, and this object was proclaimed from the housetops. According to the Royal Commission on Agriculture, the working of societies in many places has had a restraining effect on prevailing money rates all round. The object of supplanting has not succeeded, except fractionally in the Punjab. According to the Royal Commission, it is the co-operative movement, which has given a serious check to the activities of the moneylender, and yet the Punjab Committee note that moneylending is the second most important occupation from the income-tax point of view in the Punjab. The attitude of the moneylender towards the co-operative movement has, however, not been always hostile, and some Committees actually recommend, that something should be done to secure the moneylender's co-operation with the movement by having him on the Committee of the society, provided he would agree not to lend any money to the members of the society. As things are, I cannot help thinking that in some cases, the moneylender would encourage the formation of a society from amongst his clientele in order to get hold of the funds, which would come from the centre. He would get these funds in repayment of his old debts and let the society dwindle, or he may keep it alive and merely use its funds at a low rate of interest for his other operations. This aspect has never been brought out in our discussions, but I am mentioning this as an economic possibility. The fact that a considerable number of members of the co-operative society,

* The MacLagan Commitee and the recent Committees on co-operation in Madras and Burma, were opposed to district central banks receiving deposits on current account. In their opinion, co-operative banks instead of themselves taking deposits on current account would be better advised to manage their business so as to enhance their credit with commercial banks which could discount their bills and to some extent average the ups and downs of agricultural business with those of a wider business.—(Burma Provincial Banking Committee's Report, paras. 407-08.)

generally exceeding half, are also debtors, and probably derive their finance from the village Mahajan, would indicate that there is no water-tight compartment. There is also reason to believe that in some cases the debts to the Mahajan are greater than the debts to the society. The society collects interest and instalments, but, subject to that, leaves the member alone, whereas the Mahajan is allowed to be in a position to foreclose at once. He is in a more real sense sitting on the securities, which the borrower has got. Not having any strict rules, he is also the party, to whom the borrower can, and does, look to satisfy any emergency need of the borrower. Without disparaging the good work of the co-operative movement, I should like to put forward the hypothesis for a closer examination as to whether the co-operative movement is not merely a supplementary channel for loans to agriculturists, instead of being a rival. From the point of view of the total funds engaged by societies in loans to agriculturists, compared with that engaged by the Mahajan, this would be a more logical conclusion. Such a conclusion would not justify the slackening of any effort in advancing co-operation in this country, but would be an argument for strengthening it. On the other hand, a better appreciation of this fact might lead to the clearing of the atmosphere and the avoidance of the propaganda, which the movement is carrying on directly, and by implication, against those, who are rendering an economic service, and without whom the agricultural community cannot carry on for many years to come. If co-operative credit is to expand, it will be because of the attraction of cheap money, which is its principal source of strength. If cheap money is forthcoming in larger bulk, or to the extent to which the members of the movement need it, the moneylending system would of its own, decline, and the hold, which it has over the agricultural classes, would weaken. Such hold cannot weaken merely by creating a sentiment against the village Mahajan and by creating discontent in the minds of the borrowers, without allaying such discontent through an alternative machinery.

102. The relation of co-operative banks with joint stock banks have not been unhappy, but those in the direction of joint stock banks have felt that the concessions, which the co-operative movement is enjoying, give them in the competitive field an advantage. I have referred to these concessions in their effect on joint stock banks later.

With regard to the relations of the co-operative banks with the exchange banks, the point of contact has been shown to be small and negligible, but it appears that there have been difficulties with regard to call money. The exchange banks would take call money from the co-operative banks, but would not give them call money in return. In this matter some Indian joint stock banks also are co-sufferers with the co-operative banks.

With regard to the Imperial Bank, there have been serious complaints and violent controversy in the co-operative field. The argument of co-operators is that the Imperial Bank are Govern-

ment bankers and the obligation on the Imperial Bank to help the movement arises from this fact and no other. Government have recognised the importance of co-operation, and are assisting it in various ways, and it is not for the Imperial Bank to exercise a discretion, which is altogether cut off from the consideration of their being Government bankers. The Imperial Bank, it would appear, have recently curtailed cash credit and overdraft arrangements, which the co-operative movement was enjoying. They have discontinued taking as collateral the co-operative paper and given notice of their intention to stop overdraft by this method altogether. Mr. MacDonald was very firm about this, but Sir Osborne Smith promised to consider each case on its merit. In reply to my enquiry, it was indicated that the Imperial Bank had not yet lost any moneys on the cash credit given by them. Nor indeed was there any default or delay. In the case of the Provincial Bank in Bombay, a technical point has been brought out. It is fortunate, that the action of the Imperial Bank has coincided with the period when the co-operative movement has a good supply of funds. They have overcome their difficulties by loans from one Provincial Bank to another.

The argument put forward in support of the action of the Imperial Bank, was two-fold. One was the inherent defect from the banking point of view of co-operative paper, and the other was, that co-operative banks had begun to regard the overdraft facilities from the Imperial Bank as their cash in case of need, and were not in effect using these overdraft facilities very much. The Bank was not, therefore, making anything on this, and yet had to be ready when any co-operative bank called for funds, to meet the demand.

103. The staunch advocates of co-operation have also brought out another fact, which may be stated. They have brought it out that since 1925 the general tendency has been towards restriction of the movement. The reason for this restriction was that it was found that, whereas the movement had expanded, it had not been consolidated, but that the expansion had gone on too rapidly. The period of consolidation was, therefore, wanted and also of internal reform. Progress was, therefore, in many places slow. In the discussion in the Committee, it was also mentioned that this restriction was deliberate as part of the policy of credit contraction, which was going on, since currency contraction by itself would not being about the desired fall of prices. Whether the Imperial Bank, therefore, acted on purely business considerations, or whether they acted in conformity to the general policy of contraction, is a matter, on which I am unable to decide, as no evidence, either for or against, was adduced before us.

A good proportion of the funds of the provincial banks is held in government securities, so much so that it would appear, that the co-operative banks are a good means of attracting public money by deposits and putting it in government paper. To some extent the holdings of government paper are regulated by rules

with regard to the investment of reserves and with regard to the liquidity. To the extent to which investments of this kind exceed the strict requirements of the rules, they may be explained by the fact, that the banks could realise more on their investments on government paper, than they had to pay on their deposits. Whether this condition will survive, it is difficult to say. But joint stock institutions have complained that the co-operative banks take away deposits and, instead of using the funds thus secured for financing agriculture, are merely diverting them, through their purchase of government securities, into government purposes. They contend that if these funds had remained with joint stock banks, they would have gone to the financing of trade. I do not wish to emphasise this point too far, if large holding by co-operative banks in government securities is a temporary phenomenon. I feel that the rules for liquidity requirements and for investments, which have been framed, were framed in a conservative spirit of caution, but they need revision.

104. Since the encouragement of the co-operative movement has been a theme of high pronouncement from His Majesty the King-Emperor downwards, and since there are no two opinions with regard to this subject, I should like to suggest a definite method of securing this result. The criticism of the Imperial Bank with regard to the quality of the pro-notes of primary societies and central banks and the nature of the security behind these pro-notes, is one, which deserves the greatest attention of those, who are guiding the movement. A sure position at the bottom needs to be built up and rather than weakness be disclosed after the lapse of some years and suddenly, it would be better if the audit were strengthened and such weakness as there was, were brought out early. The division of the societies in "A", "B" and "C" class is itself a wise method of discrimination, which would direct greater vigilance and attention towards the "C" class. Subject to this, I do not see any reason why pro-notes with the signatures of primary societies and central banks endorsed by the Provincial Bank, should not be considered suitable collateral when the societies, whose signatures appear on these notes, are "A" class societies. If the co-operative movement claims, that it is doing useful work by providing centres for the deposit of savings, and if this claim is the foundation of the sympathy and support of the public, then the deposit side of the movement is of importance. If deposits are accepted in such quantities as they are now, and increasing quantities as they will come hereafter, prompt repayments, when due, must be secured in order to maintain the credit of co-operative institutions. If, for such prompt repayments, a large percentage of these funds is to be kept liquid, it has the consequence of increasing the lending rate, on the one hand, and restricting the funds to that extent, which could go towards the finance of agriculture. The co-operative banks were, therefore, quite correct in regarding the overdraft facilities from the Imperial Bank as the cash, from which they would meet obligations. The Imperial Bank obviously declined to be treated as an

apex organisation with a definite duty of helping the movement with funds against co-operative paper. In my opinion they have taken an unduly severe attitude with regard to co-operative paper, much of which may not be of a doubtful character.

The unsatisfactory position of the co-operative movement in connection with the Imperial Bank was recognised, and the co-operative paper, against which the Imperial Bank has declaimed, was definitely indicated in the Reserve Bank bills as eligible security, against which the Reserve Bank could finance the movement. The Reserve Bank's obligations in this connection would be much more direct and clear, and the establishment of the Reserve Bank should give to the movement the support, which it has hitherto looked for in vain from the Imperial Bank.

As an administrative measure, it would be, however, advisable for the Reserve Bank to establish a separate department, which would watch the co-operative movement, keep the necessary information and meet the requirements on a basis somewhat different from that, which would be adopted in dealing with joint stock banks.

105. There appeared to be some confusion of ideas with regard to the need for bringing more funds to the co-operative movement. It was suggested, that the movement was taking more deposits than they could use, and could not utilise all the funds available. The co-operators, on the other hand, were of opinion that this was due to the restrictive character of the administration. The registrars have great powers, and the rules, under which the movement is working, were unduly restricted. The credit of each primary society was fixed, which could not ordinarily be increased. New members could not be, therefore, attracted, as it would bring down the limit, to which each member could borrow. The registration of new societies was also a matter of absolute discretion of the department, and it was said that this discretion was not being used with a view to expansion, even where there was a promising field. On the official side, there would doubtless be an explanation of this, perhaps of the kind, which the Royal Commission on Agriculture embodied in their report. The mere existence of borrowers is not the basis of the expansion of the movement, as there must be somebody willing and able to carry out the work of the society. The progress is, therefore, bound up with the progress of what the co-operative literature calls, "the education of the public", as well as with the existence of very reliable non-official or properly trained official machinery. I am indicating this controversy, because it is no use preparing at the top for extensive and almost unlimited facility, unless funds could be fully and properly utilised at the bottom on sure and safe lines. The difficulties in the expansion of the co-operative movement are, it is hoped, of a temporary character, but the arrangements at the top for the supply of funds should be elastic, and should be such as would meet the needs, as and when they arise. A separate department of the Reserve Bank, with an officer in charge with the

special function of watching the movement and pointing out its weakness from the economic and strictly banking point of view,* would help, as the willingness of the Reserve Bank to come to the succour of the movement must depend upon the observance of business principles in the running of the society.

In view of the close examination, which the working of the co-operative movement has received at the hands of the Provincial Enquiry Committees, and the recommendations made by them, I have avoided any reference to such topics as the relation of various types of rural and urban institutions to one another and to the Provincial Bank, the relation of the whole movement with regard to Government control, the nature, the cost and extent of audit, the constitution and functions of the co-operative institutes, co-operative propaganda, whether by Government or by the movement, and co-operative education, whether inside the movement or through co-operative institutes, or in the educational institutions of the country.

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* I would illustrate this by what I have heard. I was told that registrars would not allow the central banks to lend on mortgage or against ornaments to members as it would weaken the co-operation spirit! I also heard that one registrar opposed the reduction of rate on loans on the ground that cheap credit would harm the borrower!

According to the latest figures available, the number of Agricultural Credit Societies, including Mortgage Banks, was 74,400 with a membership of 2,400,000 and a working capital of about Rs. 30 crores. The proportion of members of Agricultural Societies to families in rural areas (not to the whole population), according to the Royal Commission on Agriculture (para. 372) was as follows:

Punjab	10·2
Bombay	8·7
Madras	7·9
Bengal	3·8
Burma	3·7
Bihar and Orissa	3·1
Assam	2·9
Central Provinces	2·3
United Provinces	1·8

CHAPTER IX.

THE INDIGENOUS BANKERS.

106. Whoever coined the words "indigenous banker" has not done a service to India. The word "indigenous" is a direct contrast of "foreign". There have been foreign banks in India, but Providence has been kind that there have not been foreign bankers doing work, which the indigenous bankers are doing. The designation is not a happy one. Nor is it a correct description. Nor does it help in the classification. The Provincial Banking Committees' reports describe fully and graphically the different types and varieties of bankers and moneylenders engaged in small functions and large functions, mixed up with land, the trade in precious metals, the trade in grain down to peddling, and no useful purpose will be served in reviewing this great heterogeneous class and in dwelling on their peculiarity, on the services which they perform, on their practices and malpractices. Nor can there be any recommendations, which would bring usefully within its compass the whole of this class, except those which affect them negatively. Such recommendations were made by the Royal Commission on Agriculture. They have been reiterated by most of the Provincial Committees. I would propose the following action:

(1) Application of a Rural Insolvency Act in those provinces, where it does not exist, simplification of its terms, such as, reduction of Rs. 500 limit and getting it better known amongst the agriculturists through the same official machinery, which may be used for debt conciliation.

(2) Better utilisation of the Usurious Loans Act. It would be necessary to add some additional provisions to this Act on lines of the English Moneylenders' Act.

(3) Enactments similar to the Punjab Regulation of Accounts Act in other provinces.

I make these recommendations because of the intention behind them, *viz.*, that parties, who are weak, or who have been rendered weak by their impoverishment, must be protected in their dealings with parties, who are strong, where the latter try to take an unfair advantage of the situation. The existence of a law is in itself a check, and its enforcement by exemplary punishments against flagrant offenders would set a salutary example. But I do not think that the fixing of a maximum rate of interest by law can in itself lead very far. It would prevent the appearance of a higher rate on paper, but would not prevent a higher rate being exacted in practice from a needy borrower, if such borrower cannot secure better terms elsewhere. Laws have existed in India, but have remained a dead letter. They rather express the goodwill and sympathy of the legislature towards certain parties than serve to

protect these parties in practice. All the same, improvements may be expected by adopting the recommendations made above. What I have not been able to understand is, that, every provincial government spends a lot of money only for propaganda and education of the people in the principles of co-operation. I think propaganda and education of the people with regard to the rights, which they come to acquire under these laws, and in regard to the protection which the law gives them against malpractices, is just as important, and it is very desirable that information should be spread on this subject through Bar Associations, school teachers, postmasters, etc.

Constructive recommendations with regard to the private banker would require classification of this group. The proposal dealt with under the section of Reserve Bank in paragraph 299, which will secure membership of the Reserve Bank for indigenous bankers and certain privileges for rediscounting etc., is of this kind. It isolates the private bankers, who pledge themselves to confine their activities to banking alone, and it would induce some of them, who indulge in mscellaneous activities now, to concentrate on banking.

107. *Licensing or registration.*—Beyond this, the majority of the Committee have not made any recommendation, which will help the private banker, the moneylender, the Mahajan or any one of the fraternity. Several Provincial Committees have expressed themselves in favour of such registration or licensing involving certain duties and obligations, and certain restrictions and certain privileges. The majority do not favour compulsory registration and do not see any advantage in a system of optional registration.

The arguments against such registration are many. There is the difficulty of defining a private banker, who would be eligible for registration, a difficulty, which becomes very serious, when the banker is also engaged in trading. But the principal obstacle to compulsory registration is probably the casual moneylending operations of different parties and persons, including the cultivator himself. All loans could not possibly be brought within the compass of the recommendation, and the attempt to regulate rates would involve a very vexatious interference with private operations, and the administration might become costlier without yielding any serious results.

There are, on the other hand, very weighty considerations, which support the proposal for registration, even if it is not made compulsory*. At the present moment the information given by the Provincial Committees on the number of private bankers and on the amount of capital, which is engaged in their business, and the rates, which they charge, is meagre, conflicting and misleading. At any other time in future if the legislature desired information on this

* If a class of recognized bankers is thus created, it will grow and prosper and become a source of strength to the banking system of the country. But the indigenous bankers must be left free to ask for recognition or not.—(U. P. Provincial Banking Enquiry Committee Report, para. 471.)

subject, it would be met with the same negative condition, *viz.*, that no information is available. This is not a satisfactory position. Those, who come within the scope of the income-tax, do give information of their operations to the state, and the question is of getting this information in a little more systematic form and of adding to it with regard to smaller parties, who are not at present paying income-tax. There are private bankers of whose business moneylending constitutes an important part. There are others, with whom the income from moneylending is not important; but the capital engaged in this work is great. If no attempt is made now, no reliable information will ever be available and the existing difficulty of suggesting remedial measures would continue. The ability of the state to stop malpractices is also restricted, where the general operations are shrouded in mystery.

Two proposals have been made, which will secure the enrolment of the private banker. One is the proposal contained in paragraph 299 in connection with the Reserve Bank. The second is the proposal already set forth in paragraph 76 with regard to the enrolment of guarantors. These two proposals will involve the sifting out and isolation of the more important of the private bankers and the sowcars.

108. I consider that some good could be secured by a system of optional registration in each province. The duties and obligations of the parties registered need not be very heavy. I do not think it would be possible to put a limit to the rate of interest, which they charge, since the bulk of the capital dealt with by them belongs to them, but as an inducement to registration, I would suggest the following privileges* and concessions to be extended to them:—

(1) Concessions on their remittances on the same scale, on which concessions are given to the co-operative societies and central banks.

(2) Acceptance of their certified cheque for payment of land revenue.

(3) The question of giving them the benefit of the Bankers' Books Evidence Act may be examined by the Legal Department of the Government of India.

Most of the Committees, that recommend license or registration, also desire that such registered bankers should get privileges either

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* *Remittance.*—Central Areas Committee suggests that the registered banker "should be entitled to remit free of charge, through the post office, sums not exceeding a limit."—C. A., para. 217.)

Bankers' Testimony Act.—Madras Committee recommends that the "registered banker should be given the benefit of the Bankers' Testimony Act."—(Madras, para. 503.)

Bengal Committee suggests inducement to the registered bankers the privileges of the Bankers' Books Evidence Act.—(Bengal, paras. 398-399.)

The Central Areas Committee recommend special summary procedure in their favour against the debtors. This could be done by the discretion of the Court, if the law permitted. I recommend this to be done. Where it requires a change of law, the position is complicated and may be examined by the Legal Department of the Government of India.

in the capacity of agents to the Imperial Bank or other banks, or they should have preferential treatment in the matter of the discount of their hundis. Limits would have to be fixed for them and they would be acting with regard to hundis in the case of internal trade as acceptance houses. This line of advance seems to be feasible and should be encouraged for the creation of a bill market in the country, as well as for strengthening and keeping alive the system of private bankers.

109. If the system of registration is instituted, I would not recommend any mechanical limit of capital of the banker, which will secure him registration. If it is desired that registration should be sought, it has to be put forward not as a restriction, but as a privilege. The enrolment referred to in the case of the Reserve Bank and as guarantors, would be a privilege. If registration is also to be on that basis and if it is to become a cherished object, the number of private bankers, to whom the registration would be open in a district, should be limited. It should be by selection through the Reserve Bank or its agent in the district, and it should be confined in the first instance to about 25 to 30 private bankers in a district. This will rope in the more important ones and if the several privileges and concessions, which are indicated, are substantial, more will seek to come in, when they realise that the proposal is not for checking their growth, but for supporting them in the lawful pursuit of their activities.

The private banker has played an important part in the economic life of the country in the past and is playing it to-day. His fortune is bound up with that of the community, and the community's fortune is bound up with his. In many a crisis, he has stood with his constituents and the fact that he has made his money from the community, gives him in normal times that restraint, sympathy and fellow-feeling, which is a surer check to abuses than any legislation. From the smallest to the biggest, the private banker is being assailed by forces, which he is not always able to analyse and recognise. His trading clients have been squeezed out of business. They have been unable to use the money, which he was lending, and in some cases they have come to grief in competitive business. The direction of trade has altered. It is the man, who comes armed with ready finance from cash credit, at the centre, or his agent, who collars the trade. Partly, therefore, the future of the private banker in India depends on the future organisation of the internal trade of the country. Apart from this, it must depend upon their enterprise and the capacity for leadership, which some of them can show. Extreme jealousy of one another characterises their outlook in life, and the methods of isolation and secrecy could not lead to the formation of public opinion, which alone can enable them to sustain their role. The formation of associations amongst private bankers has been suggested. Such association will readily emerge in the case of Reserve Bank members and those, who are enrolled as guarantors. It should also be formed in the case of registered bankers, if the

scheme of registration, indicated above is adopted. Regulation of every kind, imposing restrictions, obligations, duties, or conferring privileges, calls for two things. Vigilance from the top, that the privileges are not excessive and are not abused, and the obligations are duly discharged and have not been neglected. It similarly requires, on the other side, watchfulness that the privileges mentioned are not whittled away, and the obligations are not enforced in a manner that would be severe and that would inflict losses. Such would be a living arrangement. when those representing the general community and those representing the bankers would create mutual understanding and bring about mutual corrective. On the lines, on which institutions calculated to develop opinion and to advance the propaganda in the co-operative movement are helped, such associations of private bankers would be deserving financial aid from the state.

Future of the Private Banker.

110. There was a very widespread feeling that the Indian system should be saved and that the private banker in India should be enabled to live. Whether the measures suggested above will bring about that result or not, it is very difficult to say. The private banker is everywhere losing his hold on deposits, even to the limited extent to which he was taking deposits. When competition of new agencies reduces the lending rates, it may be doubted whether he will survive.

What would be the transformation of the private banker in the near future, is an interesting speculation. He might, if he was recognised as an agent for credit, become a bill broker or an acceptance house. He might turn himself into a joint stock bank and begin to take deposits. He might combine with other bankers into more powerful syndicates, or into the joint stock bank, but the liking that he would have for such combination is, to my mind, not much. Had the social structure in India and the psychology of these people permitted a combination, such combinations would have come about long ago and they would not have lost the ground, which they have done.

Another method, which has been suggested to us, is the system known in Germany as the "Kommandit" system, by which in a joint stock organization the shareholder charged with the management comes in with unlimited liability. Something similar is permitted in India under section 70 of the Indian Companies Act.

111. It is impossible to entertain high hopes with regard to the emergence of joint stock enterprise in banking from the private banker either by himself, or in combination. Joint stock enterprise in India generally, since its introduction, has had to suffer serious reverses on many occasions and through many causes. The precise causes are not always appreciated, but the general effect of its failure persists in discouraging such enterprise. There is also the important question of cost in the case of a joint stock enterprise, the initial cost and registration etc., the obligation to publish accounts,

and the subsequent running costs, which must act as a deterrent to those who have worked economically in the past. The fate of many joint stock banks for one reason or the other, but more particularly through the jealousy and intolerance of older institutions leading to a run on them, or leading to a failure, could not have escaped notice. The privileges of joint stock banks are few and their privations many. Under these circumstances, while one may sympathise with the hopes expressed in several Provincial Committees' reports that the private banker may come in line with modern conditions through the principle of joint stock and limited liability, or with unlimited liability on the " Kommandit " principle, until the atmosphere is improved and made more conducive to the prosperity of joint stock banks in India, the expectation of progress along these lines would not be justified.

The Small Moneylender.

112. The fate of the humbler moneylender need not detain us. He can swing off to other activities with much greater facility. If the Indian population was rich and the demand on behalf of the consumers became important, the hire purchase system would replace moneylending in certain directions, as it has done in the west. The small classes with small needs, such as labourers, contractors, small traders and shopkeepers, artisans, and people, who run small workshops, government servants and other men employed in public utility and other enterprise, may come in course of time to satisfy their needs in the same manner, in which such needs have been satisfied in the west. There may be trade unions, co-operative societies for sale or purchase, slate clubs, benefit societies, friendly societies, provident funds, insurance and the like, of which small beginnings are seen in some places in India. Whether the savings of money become available to the few through an organization, which is managed by the people themselves, or through an independent organization, is a matter of detail and an important detail, but in essence, the economy effected is, that the savings of some are pooled and accommodation is available to others according to their needs. Since the moneylenders occasionally trade on the helplessness of others, it may be assumed that they are not themselves helpless and are quite capable of taking care of themselves. No case has been made out for definite state help to them. On the contrary, the whole trend has been in the other direction, *viz.*, that the savings of the people should be collected and should be so marshalled that, as far as possible, they may be available to the people themselves. As an avocation, moneylending stands in no danger, as, ever since the use of money, it is one of the oldest and ineradicable occupations. Even the reproach attached to moneylending must diminish with the increase of moneylending by cultivators themselves. All this offers a most tempting field for enquiry, but, since there are few measures that can help or hinder the small lender and the casual lender, further discussion of the future of the moneylending in India is fruitless.

THE MONEYLENDER OF THE PATHAN TYPE.

113. While the problem of moneylenders generally presents a case of usury and several malpractices associated with it, such as initial deductions, etc., it radically alters when we come to the Pathan moneylender. It is possible that, under the designation of "Pathan" are covered in popular parlance many, who do not belong to the transfrontier region. They operate in many parts of the country and in many ways, and the evil is more acute in some places than in others. It arises primarily from the fact that their ways of life and thought are substantially different from those of the population, amongst whom they operate. Their remedies for recoveries are not in accordance with law. They recognise no insolvency and no circumstances, under which the repayment can be delayed. Terrorism is part of the mechanism, which these foreign moneylenders generally use. The problem, therefore, is more a social problem than a banking problem, but, because it is an acute problem, a solution, that would be effective, must be suggested.

The Bombay Committee have recommended that, where complaints become common, action may be taken under the Foreigners Act to deport them, or under some other special legislation. The majority have supported this recommendation.

I do not see the adequacy of the action proposed. It is true, that Provincial Governments would act when, in their opinion, the situation calls for action. But it would be more desirable to take preventive action than curative one. Whatever the arguments may be for a system of registration of moneylenders generally, and for such a system not being compulsory, the moneylending operations by parties foreign to the country, or those, who are akin to the Pathan tribes even if they happen to be British subjects, are not desirable. It is universally acknowledged, that they are usurious in the extreme. They encourage a small man to resort to the insolvency court in order to defeat Indian creditors to be able to pay those, from whom he cannot escape. Cases of suicide through their terrorism have been known, and little parties are encouraged by other devices to get the money to pay these people. I, therefore, recommend, that moneylending by such classes should be allowed after they are registered with the police, and that such registration should be granted for a year on payment of one rupee. Having to report to the police station would in itself secure the moral object, as the moneylender would then feel, that somebody is watching him and his operations. Where a moneylending transaction is reported by a party not so registered, a case for deportation is made out at once. Where complaints occur, identification by finger prints would be of considerable importance. To allow the evil, to go up to the stage, where drastic action is required, and then to apply the drastic action indiscriminately, does not appear to me to be the best way.

The registration would necessarily apply to parties, who lend out cash money. There would be a few, who do the lending operation

under the guise of selling commodities, but the onus of proof, when the question arises, will be on them that cash was not lent out.

It is true, that only those classes, whose credit is very low, resort to the Pathan. But, since a rate of one anna per month per rupee is not unusual, the popular idea that once in the clutches of a Pathan, one can never get free, has some foundation for it. The community has a right to be protected by proper legislative and administrative measures against social pests of this kind. On the other hand, the Pathan is also entitled to some warning, that he is watched and that drastic action will be taken, if he takes law in his own hand. This warning, it is not possible to give him, except at the time of registration, when he calls at the police thana. The Pathan is not unintelligent, and would realise that registration has some object. If the system of loans by Pathans is not to be eradicated, but is to be tolerated, it has to be regulated. It cannot be done by leaving things alone till the evil has accumulated. Until the Pathan gets used to civilised, peaceful and lawful methods of debt recovery, the method of compulsory registration in his case might produce salutary results and might give the authorities a ready material at hand to act upon in the event of acute complaints.

BANKING EXPANSION IN INDIA.

114. The indigenous banker is obviously being squeezed out. It is possible that his income under the head of remittances has been reduced. The reduction in the number of trade bills on account of the expansion of the cash credit habit must also account for this tendency. According to the Punjab report, the protection given in law to agriculturists is also a cause. The penetration of the larger banks in the interior has been noted by the Bengal report as the principal cause, depriving them of their deposits. It has been suggested, that it is in order to make up their loss of income, that they have been driven into trading and other speculative operations. The trading operations must, however, inevitably reduce the banking field open to any firm. The post office savings bank and the postal certificates had undoubtedly something to do with the taking away of funds, which came for safe custody to him.

In spite of all these difficulties, the Mahajan and the Shroff still survive all over the country. Certain communities, like the Chetties, Multanis, and Marwaris, have large and extensive operations, much farther afield from their place of birth. They have also the *espirit-de-corps* and they help each other. The hope is expressed in some of the provincial reports, particularly in the Central Provinces report, that the Indian banker might turn himself into a joint stock bank, or might combine with others to do so.

It is, however, a losing battle for the indigenous banker against institutions that can raise any amount of deposits at a cheap rate and that can freely transfer their loanable funds from one centre to another as desired. It would only give breathing time to a

system, which has been killed out in the Punjab, where the Indian joint stock banks have been many and in great vigour, and which is doomed in other provinces.

What then is to happen has not been indicated. The present position of drift and devil-take-the-hindmost will not help the indigenous system. It is for this reason that I have recommended registration which will secure information, and privileges, which will sustain them against adverse circumstances.

According to the Bombay report, 70 to 80 per cent. of the finance of the internal trade is done by the indigenous bankers.* Most of the reports acknowledge the very extensive transactions done by them and the support, which trade and agriculture derive through them. In the case of agriculture the support is not direct, but through the Mahajan or moneylender, but it is there. If anything happened to this indigenous system, the direct help to industry and agriculture would be off. The indirect help to agriculture through the moneylenders would also diminish and the burden of the agriculturists might tend to be increased, a result, which this Committee has been expressly charged to circumvent.

* It is a fact universally recognised that although the share of the indigenous bankers in financing the foreign trade is negligible, amongst the agencies financing agriculture and the internal trade and small industries of the province they occupy a predominant position. On a conservative estimate their share in this business may be computed at 70 to 80 per cent. of the total.—(Bombay Provincial Banking Enquiry Committee's Report, paragraph 257.)

CHAPTER X.

INDIAN JOINT STOCK BANKS.

115. In the previous chapters have been examined the economic conditions of the small man with reference to his financial needs and the position of those, who supply these needs. This has involved the considerations affecting the largest section of the population as well as larger amount of capital engaged in these operations by the private banker as well as by the co-operative movement, than the working capital of the larger banks in India. This brings us in the field of trade, both internal and foreign, and industry of the modern type, as well as of financing institutions of the modern type known as banks. We come to the field, where the unit of operation is bigger and the unit of finance is also bigger. I propose that this field should be examined with reference to the general questions, which affect all banks operating therein, and then with reference to the obvious classification, *viz.*, the Indian joint stock banks, foreign banks, the Imperial Bank of India, and the proposed Reserve Bank. I do not propose to recommend what banks should do and what they should not do, because, they are institutions working on business principles, and are neither likely to take their guidance from the Central Banking Enquiry Committee, nor heed the warnings. The proper thing would be to examine what the actual progress has been in the growth of banks in India, and why it has been like this; whether it differs materially from the course of events in other countries, and if so, the principal causes of this difference. It would be equally misleading to suppose that banks in India could do greater service or dis-service than banks in other countries, or that they could achieve greater results than are warranted by the inherent possibilities of the situation.

I do not like the classification that was mentioned during our discussions, *viz.*, commercial banking, industrial banking, and banking for the finance of foreign trade. There may be some special point with regard to financing facilities for agriculture, for which on the one hand, the co-operative system has been specially created, and, on the other hand, the private banker and money-lenders do the work. There may be a further justification for this division with regard to agriculture in the sense that agriculture is spread out and the banks have not reached there with their branches. Also because the normal unit with regard to loans, in which the banks deal, is very much higher than would suit small parties engaged in agriculture.

The direct result of this classification is to give a misleading impression with regard to the operations of existing banks in India, many of whom give all kind of finance to their customers. The Imperial Bank lends out to industry large sums, as was claimed by Mr. Macdonald in his oral evidence. The 'Exchange' Banks have pointed out that Indian joint stock banks do handle bills with

regard to both export and import trade, such bills as are offered to them, and when they have no facilities to carry through the business through their own organisation, they have availed themselves of the assistance of other banks. In any case, the foreign banks, which are called 'Exchange' banks through a historical accident and whose name is a mis-description, deal not only with foreign trade, but with every branch of what has been called commercial banking. They have also been known to give cash credits and overdrafts to industrial concerns on adequate security. What earthly advantage is therefore gained by a classification, which is merely an enumeration, except to emphasise the English doctrine of what commercial banks must not do?

It may be noted that there is no law prohibiting a bank from doing any particular kind of business permitted by its Articles and Memorandum. It is notorious that sections of the Imperial Bank Act are sometimes evaded in fact, though complied with in the letter, when the Bank authorities feel that there is a good enough and safe business for them to do and when they do not want to lose it. On the other hand it is a matter of common practice for example where the bank accepts as additional collateral, documents of real property or any valuable assets, which would strengthen the bank's position in regard to a loan or overdraft. It can be hardly said that there is in practice any very rigid line corresponding to this classification. No bank would let the business of one of their old and good clients go out of their hands, if the client is willing to put it in their hands, whether it is one kind of business or another.

116. Capital, Reserve, Deposits, and Cash Balances of the Principal Indian Joint-Stock Banks on 31st December each year:

Class A.—Banks with capital and reserve of Rs. 5 lakhs and over.

—	Number of reporting Banks.	Paid-up Capital.	Reserve.	Total.	Deposits.	Cash Balances.
		Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs (1,000)	Rs. (1,000)
1870	2	9,83	1,82	11,65	13,95	5,07
1880 . . .	3	18,00	3,11	21,11	63,37	16,63
1890	5	33,50	17,59	51,09	2,70,78	55,79
1900	9	82,12	45,60	1,27,72	8,07,52	1,19,04
1905	9	84,57	77,82	1,62,39	11,98,92	1,73,50
1910	16	2,75,66	1,00,55	3,76,21	25,65,85	2,80,25
1915	20	2,81,39	1,56,65	4,38,04	17,87,27	3,99,41
1916	20	2,87,36	1,73,66	4,61,02	24,71,05	6,03,49

—	Number of reporting Banks.	Paid-up Capital.	Reserve.	Total.	Deposits.	Cash Balances.
		Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)
1917	18	3,03,70	1,62,99	4,66,69	31,17,01	7,64,84
1918 . . .	19	4,36,45	1,65,59	6,02,04	40,59,48	9,48,58
1919	18	5,39,07	2,24,27	7,63,34	58,99,47	12,16,63
1920	25	8,37,02	2,55,46	10,92,48	71,14,64	16,30,70
1921	27	9,38,80	3,00,81	12,39,61	76,89,63	15,65,90
1922	27	8,02,24	2,61,65	10,63,89	61,63,86	12,03,88
1923	26	6,89,05	2,84,39	9,73,44	44,42,82	7,37,01
1924	29	6,90,55	3,80,39	10,70,94	52,50,52	11,29,70
1925	28	6,73,00	3,86,64	10,59,64	54,49,36	10,09,55
1926	28	6,76,34	4,08,05	10,84,39	59,68,02	9,11,64
1927	29	6,88,70	4,19,35	11,08,05	60,84,11	7,69,86

Class B.—Banks with capital and reserve between Rs. 1 lakh and less than Rs. 5 lakhs.

—	Number of reporting Banks.	Paid-up Capital.	Reserve.	Total.	Deposits.	Cash balances.
		Rs. (1,000).	Rs. (1,000).	Rs. (1,000).	Rs. (1,000).	Rs. (1,000).
1915	25	45,38	9,73	55,11	91,37	20,01
1916	28	51,77	11,50	63,27	1,01,23	16,76
1917	25	44,16	10,24	54,40	99,20	20,42
1918	28	48,65	14,43	63,08	1,55,35	36,90
1919	29	53,11	21,86	74,97	2,28,49	53,71
1920	33	61,42	19,95	81,37	2,33,46	41,91,
1921	38	77,05	23,23	1,00,28	3,26,02	43,52
1922	41	83,00	27,65	1,10,65	3,37,89	56,02
1923	43	81,14	30,20	1,11,34	3,26,50	61,47
1924	41	73,65	34,34	1,07,99	2,69,06	35,14
1925	46	80,79	37,70	1,18,49	3,41,40	67,89
1926	47	86,22	39,72	1,25,94	3,46,97	82,14
1927	48	84,95	37,25	1,22,20	3,45,58	52,26

The figures for banks with capital and reserve amounting to less than Rs. 1,00,000 were not available, which is a pity. But the general fact is known that the number of such banks is considerable. The above tables were taken from the " Statistical Tables relating to Banks in India " 1927-28.

117. It is the Indian joint stock banks of the smaller size, which are both sources of local pride as well as local help, and it is their fortunes generally, which will determine the future of banks in India, but something may be said with regard to the " Big Five ". These are, the Central Bank of India, the Allahabad Bank, the Bank of India, the Punjab National Bank, and the Bank of Baroda. The Central founded by Sir Pherozeshah Mehta has absorbed the Tata Industrial and has flourished in spite of attacks and runs brought about by hostile parties. The Allahabad Bank, as will be indicated under foreign banks, has been bought out and controlled by foreign interests. Its classification, therefore, amongst Indian joint stock banks is merely formal, because it is registered in this country. The Bank of India, which is an excellent institution, has not gone in for a policy of branch expansion generally, and one cannot help remarking about this bank, in contrast with all the other Indian joint stock banks, that the superior personnel not only in the General Manager, but in several posts after him, is entirely foreign. This result is remarkable, when the bank is nearing its silver jubilee and when several of the Indian directors have died of old age, and a second generation of Indian directors is taking their place. This bank might be regarded as the stronghold of the belief that Indian joint stock banks cannot be run except by imported foreign supervision.

The Bank of Baroda is a bank emanating from outside British India, though its activities in British India are considerable. The establishment of the People's Bank in Northern India, which has shown a remarkable growth, might be welcomed, had it not coincided with the reduction in deposits of some of the Indian banks working in the Punjab. Both the weakness and the strength of the larger Punjab banks lie in the fact, that their interests are concentrated in the Punjab. The task of supervision is facilitated by first hand local knowledge, but economic factors affecting the province as a whole are likely to hit them more. The weakness lies in the fact that foreign banks operating all over India and the Imperial Bank, if they so chose, can hit them very hard by foregoing some profits in their province. The future of the Bank of Mysore, which occupies the next place in order, is assured, amongst other things, by a vigorous state policy with reference to economic conditions, and by a pride in the good work done by Mysoreans, in the possession of which Mysore is perhaps unique in all India. That joint stock enterprise in the matter of banks on a large scale is prominent in certain places in India and deficient in others, is not directly brought out by the statistics given, but has to be pointed out. Some provinces like the United Provinces, Bihar and Orissa, and Central Provinces, have very few banks of large size to their credit, and the same might be said with regard to some

of the bigger Indian States. The progress is uneven and the development is not in keeping with the requirements of different places, but seems to be the result on the one hand of the enterprise and energy of banking pioneers and, on the other, of the competition and rivalry, which Indian joint stock banks have to meet at the hands of foreign banks, and in some cases, the branches of the Imperial Bank.

118. It would appear strange, if it were said that the Imperial Bank of India has prevented the growth of joint stock banks, but the absorption by one institution of the funds of the state, which gave it both status and advantage in competition to the other institutions, also led to the exclusion of other banks from enjoying this privilege. When it is noted that amongst the joint stock banks in India, banks, which have been established by special encouragement of Indian States and the funds of these States, occupy an important place, this would be clear. The foremost amongst these is the Bank of Baroda. Next in importance comes the Bank of Mysore, and next the Bank of Travancore. There are also joint stock banks, which are receiving assistance from the state in Kashmir and in Indore. Several Northern India states, such as Patiala, Bhawalpur and others, have assisted the People's Bank of Northern India. Apart from the establishment of a new bank, several States are responsible for the opening of more branches. The benefit of this has also largely gone to the Imperial Bank. It has also gone to the Central Bank. The Managing Governor of the Imperial Bank would not disclose the nature of their contract with the Indian States in reply to a question of mine, but there is reason to believe that, apart from contribution towards running costs for a certain period, it involves the use of State funds.

Proportion per cent. of cash to liabilities on deposits of the several classes of banks on 31st December each year.

—	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1927.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
I.—Imperial Bank of India.	29	31	30	19	21	18	18	21	26	14
II.—Exchange Banks—										
(1) Banks doing a considerable portion of their business in India.	20	35	30	28	19	19	20	13	14	11
(2) Banks, which are merely agencies of large banking corporations, doing a major portion of their business abroad.	44	67	58	43	33	27	31	15	17	14

—	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1 927.
	Per cent.	Per cent.	Per cent	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
III.—Indian Joint-Stock Banks—										
(a) Banks having capital and reserve of Rs. 5,00,000 and over.	23	21	23	20	20	17	21	19	15	13
(b) Banks having capital and reserve between Rs. 1,00,000 and less than Rs. 5,00,000.	24	24	18	13	17	19	13	20	24	15

The cash position of the 'Exchange' banks has deteriorated in recent years. Its significance with reference to deposits is considered under the chapter dealing with foreign banks.

119. The cash position of the Indian joint stock banks taken as a whole cannot be considered unsound. The reduction in cash holding might be explained, and perhaps fully justified, by the consideration of many factors. We had not before us full material to go into the examination of this question. The factors are, whether there has been a substantial change in the relative proportions of current accounts, savings bank accounts and fixed deposit accounts, the requirements for cash in respect of each of which are in banking circles considered to be different. When the receipt of deposits is spread out over many areas far apart, and when banks have confidence that such deposits will be renewed, when there is a legitimate expectation of a constant flow of funds into banks from new sources, and when public trust is established, there will be some justification for banks reducing the amount of cash, which they carry. It is possible that the more important factor is the increased amount of holdings by banks in government securities. The establishment of forward market in government securities has assisted not merely in maintaining the price, but also in making it possible to effect sales of government securities without serious loss. This is altogether apart from other factors, which have rendered the government securities market extremely sensitive to sales by banks. There is also the much more established practice and expectation of loans being given by the Imperial Bank against government securities. The yield on government securities, on the one hand, in contrast with the total loss on the maintenance of cash is a business factor, which no one would blame the banks for taking into consideration. A larger holding in government securities has, however, hit the Indian joint stock banks in another direction, *viz.*, the capital loss. The facility of rediscount of bills, which in prac-

tice does not exist at the moment, but which the establishment of the Reserve Bank would create, would greatly assist Indian joint stock banks and strengthen their position without material addition to the cash, which they carry with them at present.*

120. The total number of bank branches in India will be seen from the following table:—

	Head Offices.	Branches.
Imperial Bank of India	3	165
Foreign Banks	...	88
Allahabad Bank	1	32
Indian Joint Stock Banks	121	374
TOTAL	125	659†

The above figures for 1927 would include branches of Indian registered banks operating in Indian States, but it is not clear whether they include also institutions registered and working in the States. In any case this gives to the Indian population a bank for every 440,000 people. Out of these the branches of the foreign banks and the Allahabad Bank, which is a foreign controlled bank, cannot be said to be a part of Indian banking system proper. It must be further noticed that these bank branches are not evenly distributed, and there are several urban places and wide areas containing great population, which are altogether uncovered. The distribution is uneven, apart from the total volume of banking branches being small. In England and Wales, there is a branch of a bank for every 4,500 of population, and in the United Kingdom it is one branch for every 3,500. In 1927-28 the Bankers' Almanic shows the following position:

	Bank offices.
United States of America	25,000
Great Britain and Ireland	13,100
France	4,400
Germany	3,100
Belgium	1,200

CAUSES PREVENTING GROWTH OF INDIAN JOINT STOCK BANKS.

121. If these results are considered unsatisfactory, the causes leading to these results need enumeration and analysis. It is from the examination of these causes, that remedies could be devised.

* The Central Areas Committee have noted that in the case of Indian joint stock banks, "the general tendency is to avoid lending against mortgages." In recent years disinclination on the part of Indian joint stock banks to lend against mortgages of real property, factory blocks, etc., has been greater, but no figures were available. This would affect favourably their liquidity and cash position, if their withdrawal from such business is general and considerable.

† These are located in 339 towns against 185 in 1919. Note that the number of towns in India is about 2,300.

Hoarding and Direct loans to trade and industry by deposits with firms or companies.—The position of hoarding is examined in paragraph 344 and the question of direct deposits is dealt with so far as industry is concerned in paragraph 321. There would be considerable deposits with what are called merchant bankers, *i.e.*, substantial and responsible parties, who have moneys placed with them for safe custody, whose banking business is extremely limited, but who are engaged largely in trade. This is not so much a cause preventing the growth of banking as the result of the absence of banks in mofussil places. Even when there are banks, information about them and confidence in them has not come to be established in the minds of certain classes. Often those, who deposit their money, have the notion of safe keeping and they are friends, relatives, or subordinates, who have means of knowing something about the affairs of the firm. On the amount of such deposits, no information is available, but collectively they must be considerable. They reflect not only the dearth of banking, but the dearth of suitable investments understood by the people, in which these moneys could be kept, and from which these moneys could be realised as and when the occasion requires. There must be very large deposits of this kind. It is an inevitable phase of the transition, through which India is passing. It will tend of itself to diminish, as banks grow and new forms of investments are created, in which the public have confidence and which they are encouraged to hold in preference to the existing vogue of deposits with reputable parties, who are not bankers.

122. *The deterrent effect of bank failures.*—Credit is a very delicate plant, and those, who have denied to themselves the use in the present, of money, with a view to utilise it in the future, cannot be blamed, if they show apprehension with regard to the safety of their funds, which may sometimes strike the disinterested onlooker as excessive. The failure of Arbuthnot and Company in Madras " which caused calamity in almost every household in South India "* would be paralleled in its ecects by other failures, such as William Watson & Co., the Indian Specie Bank, and the Alliance Bank of Simla. Humbler institutions have failed and affected equally disastrously humbler individuals. I regret that the Committee did not investigate the question of the total bank failures in this country since the establishment of Government by the Crown, and the amount of money that was lost in these failures. I admit that it would be more in the nature of historical research, but, had this research been made and had the results been available, it might have disclosed several facts. It might have pointed out whether the bank failures have been greater and more disastrous in India, of banks under European management, or of banks under Indian management. It might have also brought out whether they have been in excess of similar failures in other countries in the early period of the growth of banking on modern

* " Banking in India " by C. Gopala Menon (" Indian affairs," December 1930).

lines. On both these questions my personal feeling is that the failures under Indian management have by no means been greater or more disastrous, and I also feel that India has not passed through an excessive death rate in banks compared to other countries. It is a pity that these views could not be established on the basis of a definite statistical enquiry. It will be very helpful if this position comes to be examined by economic departments of several Indian universities, because it would give grounds for hopefulness with regard to future banking progress in India. It will remove pessimism with regard to the success of banks in India under Indian management.

123. How misleading prejudices are being built up against Indian enterprise in banking, may be seen from the following quotation from the "Banker", a leading Banking Magazine in the United Kingdom, dated January 1931.

"In the last ten years laxity in regard to advances has caused the failure of over 100 Indian joint stock banks. Nevertheless Indian depositors are still easily tempted to place their funds in unsound institutions."

The figures of failures, which are available to me at the moment, are between 1918 and 1927. During these ten years the number of Banks, that failed, was as follows:—

Year.	No. of Companies.	Authorised.	Subscribed.	Paid-up.
1918	7	2,09,49,970	4,85,651	1,46,185
1919	4	52,50,000	6,47,185	4,02,737
1920	3	10,40,000	7,67,000	7,24,717
1921	7	70,40,000	5,80,965	1,25,329
1922	15	10,15,55,000	27,25,744	3,29,991
1923	20	21,86,89,995	9,92,36,480	4,65,47,325
1924	18	6,30,30,925	26,46,370	11,33,623
1925	17	1,89,80,000	25,41,695	18,75,795
1926	14	70,80,000	7,05,815	3,98,145
1927	16	69,30,000	6,88,372	3,10,518
Total .	121	45,05,45,890	11,10,25,277	5,19,94,365

"Statistical Tables relating to Banks in India," page 21, for 1927-28.

The gross figure of paid-up capital for 1923, which is Rs. 4,65,00,000, strikes one and needs explanation. This is accounted for by the paid-up capital of the Alliance Bank of Rs. 88,94,000, the Tata Industrial Bank of Rs. 2,26,00,000, and the Calcutta Industrial Bank of Rs. 79,53,000. It is noteworthy, that, whereas in the case of the Alliance Bank, whose shares were quoted in 1922 at Rs. 290 per share, the shareholders got nothing, and the depositors got, through the liquidation, something like twelve annas in the rupee, in the case of the Tata Industrial and the Calcutta Industrial Bank, the creditors were satisfied in full and the shareholders did not lose everything. When a foreign critic, therefore, draws the moral, warning depositors from putting their money in Indian banks, it would be good for him to remember, that it was in a bank, which was got hold of by alien adventurers in this country, that the public lost most in this year. For the rest of the period, the figures are extremely modest and would not justify any alarmist cries being raised against Indian joint stock banking.

124. Amongst the causes of the failures in India, one may be mentioned, which has no connection with banking, and that is the unfamiliarity of the public with joint stock enterprise as such. Joint stock enterprise under limited liability was a new institution in India. Neither shareholders nor directors, nor managers and managing agents, nor auditors, fully realised their responsibilities. Many joint stock companies have got into difficulties on this account. The difficulties of a bank working under the joint stock principle affect a much larger number. They deter not merely the investment in a similar field by shareholders, but the securing of deposits, *i.e.*, securing of working capital, without which banks cannot function. The primary business of a bank being to lend out not its own, but other people's money, on sound lines, the deterrent effect on depositors through the failure of a joint stock bank would be fatal to progress.

The Bombay Shareholders Association brought out from liquidation reports of several banks that had failed, points leading to the need of regulations in certain directions. The Committee were not able to examine these and other liquidation reports with several High Courts with a view to bring out the causes of bank failures, technical and financial.

Fortunately for the progress of banking, public memories are short, and the passage of time restores public confidence in banks, which is at the moment shaken by a bank failure. Sometimes depositors split up their money amongst several banks as a means of safety. Sometimes they put their money directly with firms and industries, whom they know. In some cases the money is diverted to the purchase of land and property. In some cases it goes into Government savings banks, municipal bonds and other investments.

A bank failure is of necessity much advertised. It immediately helps some institution like the Imperial Bank, to which the

depositors turn, and it immediately penalises some Indian joint stock banks, in which deposits are not renewed. But amongst its more permanent effects is the discouragement of the entrepreneur, who would start new banks, and the discouragement of shareholders, who would be called upon to invest in new banks. Bank shares are a peculiar class of investment. Banks, that have prospered in the country, have given anything from 6 to 16 per cent. and the growth of their reserves has brought about a premium on these shares. Banks, that have failed, have generally meant a total loss to the shareholder. The bank share has thus come to be regarded as a highly speculative share. The whole thing works in a vicious circle. If failures were less, there would be more banks, and there would not be this wide divergence in the safety of the investor's capital and in the return to him. This point is important with regard to the remedial measures, which are suggested elsewhere.

125. *The attitude of Government and public authorities.*—Opinion in Government circles and action on the part of public authorities which have in the past been predominantly British. Without any desire to drag in political considerations of any kind, it may be mentioned that Indian efforts in the field of banking have seldom been viewed with enthusiasm and have been generally regarded with suspicion in official circles. It is possible that the withering effects of opinions regarding Indians held in high quarters may not have been realised or intended. But such effects were there. It is possible that official opinion was derived from association with European bankers or with the non-Indian superior staff of the Imperial Bank. It is possible that official opinion was based on ignorance or on prejudice, or that it was merely dictated, so far as the care of public funds was concerned, by a wise spirit of caution based on actual experience of the failures of Indian joint-stock banks in the past. As I said before, I have no desire to bring in political considerations, but the enumeration of the causes preventing the growth of banking in India on modern lines would not be complete, unless the attitude of officials as a class towards such institutions were definitely pointed out. It has come up in practice with regard to the care and custody of municipal funds, funds of Court of Wards, encumbered estates, minors' trust funds and university funds. I would again say that it is not that the discretion vested in officials was abused, but that it was used with undue severity, which led to a generalisation on the part of the public and of the banks, which were aggrieved, that official opinion was generally hostile. A specific case was put before us by the Patna Bank, which would be found in the evidence illustrating the way in which Indian opinion regarded the official attitude as that of discouragement rather than otherwise. There seemed to be an under-current of such feeling also in the minds of those, who are in charge of Provincial Co-operative Banks.

126. *Competition and opposition of foreign institutions.*—This matter is dealt with in detail in the chapter relating to foreign

banks and need not be gone into at this place. Briefly, it is that the most advantageous and strategic points have been held by the foreign banks. The most profitable business is carried on by them. They do not care for the less profitable, which they leave to Indian institutions, but they are watchful of every Indian institution that gathers strength and that can prove to be a possible rival. Their policy is thus the general policy of monopolists, *viz.*, give minimum service to get maximum return. Not only by direct competition but indirectly, they impede progress. The branches, that cater for the smaller place, would be small and the profits, which they would bring in, would also be small. The foreign banks would not go in for this class of business and the Indian banks cannot, because they cannot average the lean with the fat.

127. *Limited trade and business in Indian hands.*—The next group of causes would be dealt with at various places in the report. The prosperity of Indian banks is bound up with the prosperity of Indian business, both in trade and industry. It has been already examined, how the small local trader has lost ground against the representative of larger wholesale firms, how such firms have penetrated into the interior, and how they are assisted by the system of cash credit. In this respect the forces that have assailed the private banker working on orthodox lines, have also assailed Indian banks working on modern lines. There is a feeling that a larger measure of trade and industry has passed out of control of Indians. The Indian Chamber of Commerce at Calcutta has supplied valuable information as to the amount of foreign trade handled by Indians, but we had not before us the amount of trade in Indian hands before, in order to show whether it has not materially diminished. That banks prosper, when trade and industry are active, and that their profits decline, when it is otherwise, is axiomatic. Applying this to Indian joint stock banks with reference to their clientele, is not possible on a definite statistical basis, but an under-current of feeling in this direction was noticeable in the evidence placed before us, and if it is true, this factor deserves a mention amongst the causes, which have prevented the growth of Indian banking, and which would continue to militate against them in future.*

128. *Preference to Indian Banks.*—Closely allied to this, is the question as to whether such business, as is in the hands of Indians, patronises Indian joint stock banks, or gives its custom to foreign banks. The dictum, that sentiment has no place in business, is only correct as applied to individuals. National sentiment affects business in a large way all over the world. The extent, to which foreign banks act on sentiment, which secures a correlation between foreign shipping, foreign insurance and foreign banking, to the detriment of Indian enterprise, is brought out in the chapter on foreign banks. If foreign banks encourage foreign

* See Lala Harkishen Lal's introduction to Mr. B. T. Thakur's "Organisation of Indian Banking."

insurance companies and shipping companies, it stands to reason that these in their turn must encourage foreign banks. Indian firms, who are in their business obliged to deal, therefore, with non-Indian insurance companies, shipping companies, etc., would feel the pressure. Indian firms, who are in the position of brokers, agents, and who are in subordinate relation to European business houses and offices, would not ordinarily have the courage, or the inclination, to deal with Indian banks. If they could sense the feeling in favour of foreign institutions on the part of those, who were superior to them, and from whom they had to receive business favours, whether national sentiment will grow, on its own, in favour of their dealing with Indian banks, is more than can be foretold by anybody. The absence of such sentiment is undoubtedly a handicap to Indian institutions, and if it is desired that this handicap should be removed, measures would have to be taken from the top to make this possible. The question of enabling Indian firms to bank with Indian banks alone, without involving comment on the part of anybody, is one of the grounds for the suggestion, I have made, for prohibiting Indian deposits in foreign banks.

129. Amongst the *difficulties of Indian joint stock banks,* which are new in the field, may be mentioned the following:—

(1) Entry into clearing houses. Clearing houses in India are at present managed by the Imperial Bank, but they work on the basis of an Association, the decision of admission of a new party being made by a majority. At many places the majority of institutions being foreign, and therefore intolerant of Indian interests, the greatest amount of difficulties have been raised in the admission of new Indian banks. Cases of this kind were placed before us. Ultimately Indian banks do get admission, but at the most critical period of existence, if the information went out, that they were not being admitted to the clearing house, it would not help their operations.

(2) New Indian banks, particularly those that are small, cannot expect to be preferred to the older institutions, who have larger and more imposing offices, and who are lodged in premises of their own. This difficulty on the part of small and new banks is unavoidable in human nature, but it becomes a real problem, when it is a disability against Indian institutions, operating in favour of foreign institutions that hold the field.

(3) There are other directions, in which no direct evidence could be produced. There is reason to believe, that Indian institutions generally, and new Indian joint stock banks in particular, are disparaged by the superior staff of foreign institutions. There are a large number of brokers, middlemen and others, including actual and prospective borrowers and bank clients, who

constitute the medium, through which ridicule, disparagement and discouragement against Indian banks in general, and new Indian institutions in particular, are transmitted to the Indian public. This again is probably inherent in human nature, where business competition is involved, but it becomes a serious question, when the business competition is between Indian institutions and foreign institutions, and it takes this form. When a responsible bank official in a large foreign bank says a thing seriously, the amount of credence, which is put on it by the Indian public, is considerable. I regard the actual cases, that were brought before us by the Central Bank of India in the matter of their dealings in foreign exchange in Rangoon, coming into this class. Whether it is possible to devise any specific remedy, and how it could be applied in India, is a matter, which need not be dealt with here, but this deserves a mention amongst the causes, which check the growth of Indian banks.

130. The next group, which deserves mention and analysis in connection with this question, relates to the dearth of capital generally, either for bank shares or for deposits. There is a definite limit, we are told, to the possible expansion of banking in India under Indians, and this limit is set by the available funds. This is an economic limitation, and it would be examined in the measures suggested for the expansion of banking, but, with regard to the capital wanted for bank shares, it may be stated, that there are many individuals in India, large firms, and others, who have invested large sums not merely in trade and industry, but in government securities, municipal bonds, etc. It is not conceivable that, if the atmosphere of the banks were favourable, for the success, capital would not be forthcoming for a dozen new banks in India. A reference has been made before our Committee to the flight of Indian capital abroad. The difficulties of investment in new companies of all kinds, which are being registered in India, are large. But there are numerous banking institutions in this country already constituted, which are not working to their full capacity. There are many smaller banks in existence, which by their amalgamation, could offer a suitable nucleus. The idea, therefore, that banking progress in India is limited by the dearth of capital available as share capital, would not seem to be justified, at all events for the next stage of progress.

The position with regard to the deposits and working capital is examined in other parts of this report.

I have not dealt with several causes affecting the growth of banking in this country, such as a larger number of transactions being on the cash basis and a smaller vogue of the cheque habit. This is undoubtedly important. It is not merely the absence of the cheque habit, but of that familiarity with credit instruments of all kinds, which restricts the operations of established banks and

the scope for new banks. The topic is dealt with elsewhere. I have also not referred to the lack of trained bankers and competent and honest parties for running banks. With regard to the latter, it was the Imperial Bank, and, perhaps deriving the information from them, the Finance Minister dealing with this subject said that progress in branch extensions was limited by the availability of suitable men. The number of men in responsible position, on whose services call may be made, if bank offices in India were doubled, would be in the neighbourhood of five hundred to eight hundred, and I decline to believe that eight hundred more men from amongst the existing staff of banks, or from outside, competent and reliable for this purpose, could not be found, if it were intended, and if other factors permitted the doubling of the number of bank offices in India immediately.

131. *Capital.*—Before coming to the question of finding remedies, or initiating measures, which will lead to the expansion of banking, it would be useful to deal with certain general questions affecting the existence and working of joint stock banks in this country. While the expansion of banking has been considered desirable, opinions have been expressed all round of the danger to the public and to the institutions themselves, of banks started with very small capital. In Travancore, banks have been started on a capital of Rs. 1,000. Where such small banks cater for children, or for special purposes for parties with limited means and limited loans, which they occasionally require, there will be nothing to say. But, as banks, institutions with very small capital have to be discouraged. The question was discussed in the Committee and I recommend that the minimum paid up capital should be Rs. 50,000.

Travancore has been in India par excellence the region of small banks. I therefore attach some importance to the views expressed in the Travancore Report. They have reported as follows:—

"When we fix the minimum paid up capital at Rs. 50,000, the question will naturally arise as to what should be the position of the large majority of the existing banks having much smaller capital. We suggest that these banks also should comply with the provisions of the new legislative enactment, but should be given the opportunity to raise their capital to the minimum requirement within a period of not more than two years, failing which they will either have to wind up their business, or secure the statutory minimum by a process of amalgamation, facilities for which should be provided."*

The spirit of the recommendations of the Bengal Committee's report regarding the Bengal loan offices is also the same. Soundness does not lie in bulk. A bank with a capital of Rs. 20,000 may be sounder than another bank with a capital of Rs. 50,000, but those, who have to frame regulations, must be guided by general considerations, and the balance of these considerations

* Travancore Report, page 200.

points to the need of a minimum limit. In order to meet the arguments of those, who are opposed to a minimum limit, if and when there is a central banking organization charged with the functions of the general supervision of banking in a province, exceptions may be made on a definite representation and after examination of each case. It is urged that the exceptions should, however, be such, that the spirit of the regulations putting down the minimum should be observed.

132. The question of the size of the banks is materially part of the larger question as to whether expansion in banking in India should be on the basis of extending branches of large institutions, or encouragement of local small institutions. With regard to the establishment of one hundred branches by the Imperial Bank, which became part of the contract at the time of the amalgamation of the Presidency Banks, Government did recognise the advantages of the extension of banking, and took away the edge of public criticism on their action conferring valuable privileges to this bank by linking it on to the advancement of an avowed public object. The foreigners looked upon this with great disfavour, as indeed they would, on the basis, on which they were discussing, *viz.*, the state should have nothing to do with the encouragement of banking. The point was raised in the Committee's discussions several times as to whether other banks should not receive some appreciation, or some direct assistance in their policy in extending their branches. Public opinion in this country is quite alive to the need of extension and also to the fact, that such extension would do good to the country at large. A clear policy has not yet been enunciated, and it is unfortunate that no discussion took place in the Committee with regard to the advantages of a local small bank, as against a branch bank controlled from presidency or capital towns. There are many advantages in the local institutions, the biggest of which is, that it gives the local big man a stimulus to play a big role, and also engage his capital in the task. A *rais* for an important town would have little inducement, and perhaps no confidence, in shares of a large bank located at the capital of the province. Even if he became a shareholder, he would have little chance to be on the board of such a bank, as indeed the places on the board of any bank are limited in number. He would, therefore, make a struggle, if he is a banker, to exist either as an independent banker as long as he could, or he would engage in trade or industry, or such other activity as would not only find occupation for his money, but some little status, the search for which is inevitable in human nature. The task, therefore, is to direct this legitimate ambition into channels of public good.

Banking growth in other countries in the world came from the establishment of small local institutions, which later grew in size and found safety and strength through their amalgamations, when competition became acute. If it is the ambition in India to secure banking expansion, which would be parallel to such expansion in other countries, it could be achieved much more readily

by the encouragement of local institutions, than by encouragement of branches of the larger joint stock banks. In the west, there are large banks having several thousand branches, but in India the branch organization of the Imperial Bank is looked upon as a matter of wonder and pride, when it has reached the neighbourhood of two hundred.*

It is possible that local banks could be brought into existence easier, if large banks gave the necessary guidance and impetus, helped them in the matter of staff, and guided them in the spirit of a foster mother. They may even find it to their advantage to secure valuable local connections, by taking shares in such new institutions. This line of advance was indicated by Mr. Pochkhanawala of the Central Bank. I fear that the possibilities of local institutions have not been examined. Small banks, wherever they are working, are regarded as precarious and negligible. There is a lot of local sentiment in India, and parties, who will trust an institution, in which they play an important role and whose affairs they can watch, are more prone to go in as shareholders and directors than in a scheme of things, in which they become mere depositors of a branch. There is still the feeling of self-sufficiency in many parts of the country, where rich men would have nothing to do with any bank. Such men could participate in the formation and the running of a bank, which they can call their own. Better hope of expansion lies in this direction, than in the matter of branch banking. Branch banking means that the older institutions should throw themselves out in new districts, and also that new banks on a large scale should come into existence and spread their branches. It is notorious, that branches have been put, not so much with a view to finance the district, as with a view to rope in the deposits and to bring over the surplus to be employed at the centre.† Local banks could do more good to the interior than branches, provided they were helped and guided, and, above all, they had somebody to fall back upon in the event of any local stress, which they experience.

133. Allied to the question of size of a bank, is the question of costs. The Committee got no material before it, which would

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* Chairman's Speech, Calcutta, Annual General Meeting, August 1921:—

"One of the burdens, which the amalgamation has hung round our necks, is the starting of 100 new branches within a period of five years......... The programme drawn out by the Central Board was for the starting of 20 new branches......... We expect to complete our first year's programme within the time allotted to us."

Sir Basil Blackett's speech at the Delhi University, 1925:—

"In view of the recent rapid extension of the Imperial Bank, it will probably be desirable to consolidate the ground gained before advancing much further."

† The Bombay Committee have also suggested that banks collecting deposits in the mufassal should also keep in view the internal trade needs of the locality. For this purpose, periodical statistics regarding the total deposits received and the total advances made by different banks in different areas should be collected and published by the Central Banking Institution.—(Bombay Provincial Banking Enquiry Committee's Report, para. 164.)

indicate whether new branches by the Imperial were paying or not paying. Nor did they have data for a comparative examination of expenses of a branch by different banks in India. I am of opinion, that the standard set by the Imperial Bank is not a wholesome model for expansion of banking. It is necessary to evolve an Indian standard of expenditure for the management of bank offices in the mofussil. At present, there is a very unhealthy spirit of copying western banks. Some of the foreign banks are maintaining in this country a standard at their several branches higher than the standard known even in the United Kingdom. A very expensive pattern is thus put before a very poor country. Slow progress on this pattern becomes the occasion for traducing Indian capacity and Indian possibilities.

The question of cost, if a branch is to be managed efficiently, must be considered in conjunction with the question of business turnover. Experience, it is hoped, will evolve in this country a standard more suited to Indian needs and Indian resources. But, branches in the interior, or, for the matter of that, local banks, which may come into existence, would have to be assured that there is enough business to pay their way. When the vogue for cheque increases and banking habit expands, this result may be expected. In the meanwhile it is recommended, that progress should be sought on both lines, *viz.*, local institutions and branch banking.

134. It was the opinion of the foreign "experts" that the ports were over-banked at the present moment. It was also expressed to us, that in the interior, at several places, there were many branches leading to a competition, which hurt the Indian joint stock banks. The question of such competition on the part of the Imperial Bank and the foreign banks is dealt with in their respective chapters. It was deplored that there were several large places, where even a single branch of a joint stock bank would serve a great public convenience. At present the expansion of branches is left to the banks themselves. Even when their attention has to be drawn to possibilities, business considerations affecting their own institution, would determine their action in opening new branches. This was regarded as unsatisfactory. In the absence of a central banking authority, who would review the field, and who would indicate at which places new branches could be opened with advantage to the public and to the banks themselves, the position must remain as it is. If, however, the encouragement of joint stock banks in opening branches becomes a definite public policy, and the work is to be done by the Reserve Bank, this complaint may be got over. Some Provincial Committees pointed out places, where a branch of a bank would do much good.

135. *The question of liquidity.*—Great stress has been laid on the question of maintaining proper liquidity by banks working in India. The importance of maintaining adequate cash arises from the fact, that a banker must meet the demand from his customer

in the case of current accounts by an immediate payment of the cheque drawn on him, and in the case of deposit accounts on due date. As a banker lays great stress on the prompt discharge of his liability by his customer on due date, so he must in turn set an example. He must, it is argued, maintain sufficient cash resources, or, have other working arrangements, by which he can meet his obligations; failing this, confidence would be lost and the deposit habit would be discouraged.

In connection with this, I have come across a very interesting situation in the intensive growth of banking in Travancore. The Travancore Report says:—

"We are told that, in Travancore, the banks are not so sensitive; nor are the public so vigilant. When a bank is unable to meet the demand made by a customer and cash his cheque, nothing happens to the bank. But such a position has told upon the growth of the banking habit. Until such time, therefore, as the banks gain the entire confidence of the investing public, the growth of the habit cannot be appreciable. The maintenance of adequate cash reserve or assets in liquid form being one of the means by which public confidence may be inspired, it is desirable that banks maintain certain ratios between time and demand liabilities and liquid assets."*

While any slackness with regard to the prompt discharge of obligation by a bank, is to be deprecated, it is noteworthy, that it is largely a matter of public opinion. Several generations have passed since banking developed in western countries on modern lines, and delay or difficulty in cashing a cheque by a bank has become unthinkable there. The maintenance of the necessary liquid resources has become axiomatic. In India also, it would be the ideal to reach.

136. In order to reach this, various methods are suggested, not the least important of which, is the system of a Bankers' Bank, so that while the bank would carry with it as cash, what it might ordinarily require, it should have a 'case of need' in the central institution, to whom it can appeal for more cash. Ultimately, it would resolve itself into a matter of cost, and I have dealt with this question in considering banking costs. The central institution would work on the basis, that abnormal requirements of banks would not concentrate on the same day and at the same time. This expectation is perfectly justified and without any serious additional cost, this machinery would certainly serve the purpose.† I have not been able to consider fully the effect of what may be called 'limping' current deposits. In the case of the post office savings bank, notice is required for withdrawals, and withdrawals can take place only on a limited number of occasions during the month. But the cash position of postal banks is mixed

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* Travancore Report, page 198.

† The Travancore Report has suggested a Central Bank with this idea. Mr. Sarker's note relating to the Bengal Loan Offices has also got this fundamental idea.

up with the cash position of the post office generally, and of governmental finance, and does not afford, therefore, the means of ascertaining the exact difference. Where banks take savings bank account under varying set of rules, involving some restrictions on the amounts of withdrawal and the occasions for withdrawal, the cash requirements would undoubtedly be less than in the case of current accounts. These deposits occupy a position between the current on the one hand, and the fixed deposits on the other. Even here the cash resources of banks are lumped, and neither the banks nor those, who wish to study the position of banks, would be able to say with any degree of exactitude, how much economy in the maintenance of cash is effected by this method. I am opposed to the use of the term " savings bank deposits " by all and sundry,* but that does not mean, that banks may not be free to institute a system of intermediate deposits with restrictions on withdrawals, or requiring notice. If there are no restrictions on withdrawal, and if there is no question of notice, another variation of it would undoubtedly be, that in the case of these intermediate deposits, banks would pay fully and at once, if they like. Customers would have to take the chance of earning the interest on the basis, that they may have to wait for their cheque being cashed for one, two or three days. Whether such a system will assist the banks in drawing more deposits, and to what extent it would reduce their requirements of cash and, therefore, the cost of keeping such cash, are questions, which we had no opportunity of examining, and, while I know that I have not solved the questions, I shall be content with having raised them.

137. *Commercial Banking: Short term loans.*—One of the things, on which the foreign " experts " have laid very great stress, is the need of confining commercial banks to short-term advances. In my opinion they have over-emphasised this counsel of perfection. They have gone to the extent of suggesting, that all long-term loans must come from special institutions and that the requirements for industry except small seasonal needs, must be met from debentures. They may have the justification in the recommendation about the debentures from the experience of other countries, where the savings of the people are large, where the debenture as an instrument of saving is understood and is sought after. But in India it will be many years before this position can be reached.

The same vicious distrine under the term " short-term investments " has held the ground in India through another cause, and, that is, section 1 (*a*) of Schedule I—Part II of the Imperial Bank Act, which prohibits the Bank from lending out for more than six months. I have reason to believe that this clause is in practice evaded by the Imperial Bank, many of whose loans are renewed. In Western countries the loans of commercial banks are for short period in form but without rigidity. Consciously and deliberately, banks play a very important part in the financing of industry and they engage the funds not by mechanical rules of period, but,

* *Vide* paragraph 351.

according to the needs of their clients, so long as they feel safe about the ultimate return of their money. What happens in practice is that the deposits, which are short-period, are also renewed. Similarly, loans, which are on the face of them, short-period, get renewed. Many authorities could be quoted to show, with regard to banking systems in many countries, that an undue emphasis, in practice, on short-term loans would defeat its own object, and considerably detract from the service, which banks can render to trade. The following from a recent authoritative work gives the experience of the United States:—

> "The American tradition holds that commercial banks should finance only short-term, self-liquidating transactions and should leave the provision of permanent capital to specialized investment institutions. The theory is that, since the liabilities of the bank are demand liabilities, the assets must largely consist of cash, and that short-term, self-liquidating paper is the most convertible and manageable earning asset. This traditional theory bears the approval of state and federal law, and the banking system conforms nominally to the theory; but an examination of the business (banking and investment) situation reveals the following facts:—
>
> (1) No small part of commercial loans are provisions of permanent investment capital.
>
> (2) Industrial loans which finance the purchase of raw materials and labour to make a marketable product are quite as good bank assets as commercial loans to finance the marketing processes.
>
> (3) The so-called self-liquidating loans are largely liquid only with respect to individual banks and not to the banking system as a whole.
>
> (4) Liquidity is mainly a matter of high organization of the market for credits and of the markets for the various forms of collateral.
>
> "*Extensions of Investment Credit.*—To the degree that banks invest in stocks and bonds of corporations, they contribute fixed capital to enterprises. The purchase of securities is the practical equivalent of loaning funds; loans to purchase securities which are then pledged to secure the loans are practically vicarious purchases of the securities. That there is a marked tendency for commercial loans to become continuous and permanent is due to the fact that production tends to become more and more capitalistic and continuous operation more and more necessary for efficiency, while improved facilities in distributing products lengthen the period of consumption and reduce the seasonal feature of business. Probably at least a fifth of commercial bank loans are now for investment purposes.

"The one-time practice of banks of insisting that their borrowers "clean up" their loan account at least once a year has nearly ceased, except in lines of business having one or two definite seasons, and loans are indefinitely renewed time after time, or if borrowers are required to "clean up" they may borrow at one bank to "clean up" at another. Large borrowers sell their notes widely over the country through note-brokers; to pay a lot of notes maturing and due to holders in one section of the country, another lot will be issued and sold either to these same holders or to purchasers in other sections; thus the banking system as a whole supplies permanent working capital. The individual bank, however, may decline to renew a loan or to purchase the renewal paper, and thus not itself provide permanent capital.

"When the whole banking system is considered, it is clear that commercial paper is only to a small extent self-liquidating. The banks renew loans freely, as just noted; their regular customers depend upon this accommodation, and large contraction or refusal to renew loans is quite impossible, especially in time of panic. When a borrower becomes strong enough to borrow through sale of his paper widely over the country and any holder refuses to purchase the renewal paper, he can borrow from other banks. The holder bank may also at any time sell the paper to another bank. Thus rediscount gives liquidity, but rediscount is simply a shifting of assets as between banks and as between forms of assets. One of the specific purposes in developing the federal reserve banks was that of providing central banks where paper holdings of needy banks might be converted into cash funds by this process of shifting assets. The capacity of the federal reserve banks to liquify by rediscounting comes through their ability to tap unused reserves and to create federal reserve notes, which in the tills of the banks constitute not only a paying medium but also an actual reserve, although not termed "reserve" by the law.

"*Loan Ratios as Business Barometers.*—The sum of a bank's investments in securities and of its loans and discounts, represents its contributions of capital to business. The greater part of these funds was originally deposited as cash in the bank; the rest has been created by the bank. Bank notes and deposit liabilities have been created and exchanged by the bank for various credit items of borrowers, while the borrowers possessing these bank notes, deposits, or actual government money, have been enabled to procure materials, labour, tools, plant, transportation, and the like. The funds put into invest-

ments and some indeterminate proportion of the loans (and discounts) represent contributions of permanent capital. The proportion of the loans which constitutes permanent advances of capital ranges in all probability from 20 to 50 per cent. The tendency is to increase.

"The ratio of investments, *plus*, say, 30 per cent. of loans, to total assets is therefore a measure of the degree to which a bank contributes permanent capital to business."*

138. Frozen advances are an evil, but in determining fundamentals, one must not ignore an occasional root test such as this: Can the banking system as a whole claim in any country, that they can withdraw their moneys, which are ostensibly lent out for a short period? The answer is in a definite negative. It does not, therefore, prove that an individual banker should be lax, or that he should not test every one of his loans and, in the case of some of them, insist on immediate payment, the moment he has any reason to feel anxious. The elimination of weaker borrowers and the substitution of new and stronger ones constantly goes on. It must go on with regard to an individual bank, on whose part the greatest amount of vigilance is called, for drawing to itself the better and safer accounts and eliminating the weaker ones. Sound banking requires this vigilance, but the laying down of a doctrine for the banking system of the country as a whole is mischievous in the extreme. Progress will not be secured in Indian banking by deliberately setting the banks on the steep path.

It has been authoritatively stated that early European banks in India lent out for long periods and it was by the enterprise of these banks in making such loans, that European trade and industry of this country prospered and showed good results. It is necessary to lay down some standards, but not impossible standards, and the interdiction to banks, consciously to make loans, which would be recovered not in six or twelve months, but in two and three years even under absolutely safe conditions as to security, is not justified. This does not again mean that there should be no relation in volume between such loans and the total working capital of the bank or that there would not be need to scrutinise much more carefully loans extending over some time, since the change of economic conditions weakening the borrower, or the enterprise, is more likely in the long period than in the short one. The rule, which makes self-liquidating trade bills the best investment for a bank, has reference more to liquidity than to soundness and it would be a confusion of ideas, if other considerations are all set aside and an attempt made to put before the Indian banking world models, which do not exist in reality.

139. Banks have to provide for two things, *viz.*, their ultimate solvency by taking care that the loans advanced by them will be recovered. This is elementary. This judgment is wanted of banks.

* "Banking Principles and Practice" by Westerfield.

They have to provide for this by judging the credit of their clientele and their resources carefully when they give clean advances, and, if they are not sure, by taking adequate securities. No one from outside can help them, if they fail to do this, but the second requirement, *viz.*, their ability to meet any abnormal, sudden or emergent demand is one, in which they are entitled to help from the Reserve Bank. Securities, which they possess, if they are adequate and sound as banking securities go, should be converted promptly into cash to help the institution to meet a crisis. In India in this respect the position has not been satisfactory. Large sums have been locked up in government securities on the ground of liquidity, and complaints were heard, that even against government securities, accommodation was not always readily and fully forthcoming from the Presidency Banks before the amalgamation, and from the Imperial Bank thereafter. Another complaint was, that, if accommodation was given by the Imperial Bank against government securities to a particular bank, the money was not made available except to the head office of the borrowing bank. These, sometimes, did not point to the Imperial Bank acting as the Bankers' Bank though the Imperial Bank denied the allegations.* No useful purpose will be served by a discussion of this here, since the discussion has already taken place regarding the establishment of the Reserve Bank. If, however, there is going to be any delay, the exact obligation, which the Imperial Bank has towards the joint stock banks in this country in this direction, should be defined so as to leave no doubt whatsoever. The fact, that joint stock banks in this country should receive accommodation in an emergency against Government paper only and against nothing else, explains one of the difficulties in the way of bank expansion. The Allahabad Bank, in their evidence before the Royal Commission on Currency in 1925-26 made it clear that there was a prejudice against rediscounting of bills by banks with the Imperial Bank. The existence of similar prejudice, which would reflect on the standing of the bank, was also disclosed in our enquiry. The Imperial Bank further does not give this rediscount either freely, or at a rate different from the rate, which they charge to their own constituents. An important client of a joint stock bank can get his bills discounted at the same rate, at which the

* "At present, the Imperial Bank is not a true Central Bank, although it has, with its predecessors, a long and honourable record of public service. It has not the management of the note issue, which is still in the unsuitable hands of Government; and it must, as a commercial bank, compete with the other trading banks. There is plenty of evidence that it actually does so. Moreover, its Bank rate is not completely effective and depends too much upon the exigencies of Government finance. There is little cohesion between the Imperial Bank and the other elements of the money market, especially as the rediscount of hundis is accounted a sign of weakness. In times of stringency, the Exchange Banks, whose Head Offices are all abroad might (and in most cases do) look to London and not to the Imperial Bank for assistance, and in any case the constant availability of this assistance would at all times make it difficult for the Imperial Bank to bring the market under its control by any of the devices known to the more fortunately placed European banks." ("The Imperial Banks," by Baster, pages 193-194.)

bank itself can get it. This is not a desirable position and it cannot encourage the habit of rediscount by banks, which in its turn has a very great bearing on the use of bills in this country, in preference to the cash credit and other forms of accommodation by a banker to his client.

It was the question of liquidity, which encouraged one of the Provincial Banking Committees to suggest that facilities for securing cash on the equitable deposit of documents with banks should be available to private bankers. The use by a banker, of what he keeps aside as cash, is not very frequent and the call for such cash on his part on the central institution would be equally rare, but the cash has to be there in order to maintain the reputation of the institution. The keeping of this cash is a costly process and to the extent, to which the central institution will relieve joint stock banks in this manner, difficulties experienced by joint stock banks now would be reduced. The support by the central institution is to some extent in the nature of the support, which the military authorities give to the civil authorities, seldom required, but it must be always there.

140. *The State policy in respect of joint stock banks.*—It is curious that Indian joint stock banks enjoy no privilege of any kind, no assistance from the state, and no preference. The only concession, which they use, is the concession in the matter of remittance given by the Imperial Bank, but this they share with all foreign banks in the country. "Laissez-faire" and leaving alone private enterprise to the comfortable doctrine of self-help, could not have gone farther, than it has done in India with regard to Indian joint stock banks. Now that the Banking Committee has been appointed to examine the position and the defects of this policy have been considered, the question arises: will the state definitely declare it to be an important purpose and object to encourage the growth of Indian joint stock banks? I recommend that this should be done. It would improve the atmosphere very greatly. It would put heart into those, who are carrying on an unequal struggle at the moment. It is also necessary because of the position, in which the Indian joint stock banks find themselves. Economic life is not static. It is dynamic. There is always a movement, however small it may be, in one direction or the other. Foreign banks have grown in number and in strength during the last few years in this country. To that extent, have they covered a profitable field, which might have been open to Indian banks? Indian banks have not expanded. The argument for substantial concessions to joint stock banking in India may be examined with reference to the basis, on which such concessions are given to the co-operative movement. The fundamental claim of the co-operative movement for assistance and encouragement has been on the ground, that it will relieve the agriculturists from the burden of heavy interest charges and render his position sounder, increasing production and eliminating the need for special expenditure in times of famine, etc. In other words, the agriculturist, who is an

important tax-payer, is going to be helped and if his position is improved, it is good for the position of Government revenue, which depends on him. The same logic may be applied to agricultural and commercial classes, who would be served by the joint stock banks.

141. The moral ideal in the co-operative movement of mutual help and reliance, and of the combination of one class of persons to eliminate the middleman, is great. It has to be seen, to what extent it has been realised, and also how far the search for this ideal has led the movement sometimes to disregard the more essential business and economic principles. A joint stock bank, whatever else may be said against it or about it, has to run on business principles, or to pay the penalty at once in a definite form. Except its own directors and managers, it has no mentors outside, and no section of the oommunity is particularly interested in its success. The state has not yet acknowledged, even in principle, the need of assisting this particular branch of enterprise. The expansion of Indian banks has been relatively small. It would be legitimate to infer, that against the competition, which they have to bear, they are receding. The moment has, therefore, come for the formulation of a definite policy in this direction, and a declaration would be welcome.

Such a policy exists at the moment in relation to co-operative banks. Diverse forms of assistance and concessions are given to these banks, and some more have been recommended by several Provincial Committees. If it is recognised, that the growth of joint stock banking in this country will help the economic progress of the country, similar concessions should be extended to them. Another ground for extending some privileges to the Indian joint stock banks is that, apart from the regulation, to which they are subjected at present, many new forms of regulations are being imposed on them. These are being imposed on public grounds and on the ground that a bank is not an ordinary enterprise, but a public utility company, that the interests of the shareholders may be important, but the interests of the depositors and the public are also important. If this is so, those, on whom new disabilities and restrictions are being imposed, may claim help. I summarise the concessions, which I suggest should be made available to the Indian joint stock banks. Some of them are examined in detail in the chapter dealing with the Reserve Bank.

(1) Free transfer of funds between those centres, where the Reserve Bank has a branch.

(2) Remittance concessions of the same kind, which the co-operative banks enjoy at present.

(3) Freedom from stamp duties to the extent to which it is enjoyed by the co-operative banks.

(4) Facilities for opening new branches on the same basis, on which such facilities have been given to the Imperial Bank of India in the past, or on the new basis, which

may come to be fixed for this purpose by the Reserve Bank Board.

(5) Facilities for rediscount of bills with the Reserve Bank, benefit of special rediscount rate under the bank rate, and for securing help on *pro note* against suitable collateral.

(6) Exemption from super-tax for a period of five years in the event of two small banks amalgamating.

(I would not press for the exemption from income tax to be extended to the Indian joint stock banks on the same basis, on which the co-operative banks at present enjoy an exemption.)

(7) Restriction on the opening of branches in the interior by foreign banks.

(8) Restriction on the placing of deposits by Indian-born persons and Indian joint stock companies with the foreign banks.

142. On the wisdom and policy of giving these concessions, there will be many comments. Anticipating some of them, I may say that the position of India is most peculiar. No country in the world finds itself with such a large part of its important material activities handled by foreigners and with a strong position, in which foreign banks have entrenched themselves. Either this country must emerge from this position, or leave matters, as they are, to drift. If nothing is done in the banking field by the state in India for the next ten, or twenty years, I have no hesitation in saying that Indian joint stock banks will exist only on sufferance. They will exist in a moribund condition. In their backwardness and in their peril, will be the backwardness and peril of this country. Even this position will only arise, if they will survive the strain, which they have already begun to feel.

While there may be many, who will support a policy of encouragement in some directions, they will cry halt at what they will regard as the multiplicity of concessions. The important thing in this connection is to take measures, which will be effective, which will go to the root, and which will really help. There will be enough time after such measures are taken, if the banks grew fat on the great advantages, which in the opinion of some people, are being given away, to watch them and to secure the benefit of some of these advantages for the bank's constituents, or to reduce the concessions given, or to increase the taxation, which will fall on the banks. It is better to proceed on these lines than to proceed on a line of extreme caution, whittling down advantages, till only those remain, which sound good on paper, but which in practice do not help. Let the banks make profit. It is only when some banks make big profits, that new banks will be started and in the competition between these institutions for rendering service to their clientele, the excessive profit will disappear. I conceive this method of advance as preferable in all respects to the method,

which involves just a tinkering with the structure, lip sympathy and benefits, which sound well but do not sustain Indian institutions in their fight against foreign banks.

143. *Possibilities of expansion.*—All the measures indicated in paragraph 141 are calculated to create an atmosphere of hopefulness for Indian joint stock banks. The possibility of running banks at a profit arises only after the possibility of existence and survival is assured. I do not wish to take an unduly alarmist view, but the nature of the competition, which has been disclosed and complained of in many places, would point out to the danger, which Indian joint stock banking carries on its head. It is essential that this danger should be warded off. After the relief, which Indian banks feel from this situation, is realised and after it has been established that banking always has been, and has now even for Indian concerns definitely become, a profitable business, expectations of expansion in many directions may be realised. Some of these directions may be here reviewed. Several Provincial Committees spoke of the possibilities of private bankers registering themselves as joint stock banks. The position of joint stock banks, as it is to-day, is by no means rosy, and there is little improvement, which a private banker could secure, by becoming a joint stock bank. He would have to pay, in the first instance, heavy charges at the time of the registration of the company, and he would have to keep his accounts in a prescribed form. His affairs will receive publicity not necessarily helpful, because it would not be balanced by any advantages from any direction. With the concessions attached to joint stock banking, recommended herein, some private bankers might turn themselves into joint stock banks, or a group of them might start a bank to secure benefits and yet retain their separate identity. Whether the "Kommandit" principle, which gives limited liability to shareholders and leaves unlimited liability for the principal partner, will come into vogue or not, it is very difficult to say. India is primarily a land of conservatism, and until some very enterprising people set up the model, it is not very likely to be copied. Local sentiment, with or without the guidance and help of a larger bank might also bring about new local banks with modest capital. The greatest amount of guidance and sympathy would have to come from the Reserve Bank Board, and large results in this direction could not be secured unless that Board is imbued with a definite purpose and until, therefore, such purpose is embodied and declared in a definite policy of the state.

Amalgamation of smaller institutions, which already exist, particularly in South India, might help, provided Government and the authorities of the State, within which these banks exist, take a hand in the matter. Until a third party negotiates and establishes a fair basis for amalgamation, amalgamations cannot come about. One bank might absorb another by buying it out, but voluntary amalgamations have to be pushed forward by advice and pressure from the top.

Nidhis offer another promising raw material for the emergence of joint stock banks. Some of them have already adopted banking functions and under the inducement of the concessions suggested and under encouragement from public opinion and from government, some more might come into line and be the precursors for healthy and strong local banks in Madras. Similar results could be brought about in Bengal with the transformation of the loan offices. Much greater effort would be needed in Bengal for the establishment of Indian joint stock banks after the recent failure of the Bengal National, and whatever may be the situation elsewhere, the strengthening of existing local institutions becomes an imperative duty in Bengal.

144. I have tried to look in another direction for expansion of banking proper in this country. There are 490 co-operative central banks. Some of them are located at places, where there is not a branch either of the Imperial Bank, or of the joint stock bank. From the point of view of loans, the co-operative movement caters only for its members. From the point of view of receiving fixed deposits, the central banks do receive them from non-members and I understand that they are also receiving current deposits from non-members at certain places. Accurate information on this subject could not be secured, as indeed the examination of the co-operative movement at the hands of the Committee took place more with reference to the strength of the movement rather than with reference to its ability to play a greater role, as supplying a nucleus of banking institutions in India. The co-operative movement works under restrictions at the present moment. Some of these restrictions may be quite sound, but the basis of these restrictions is the concessions, which the movement enjoys from government. The financial value of these concessions does not appear to have been ever estimated. How much it is worth to the movement in any province is not known. Concessions have been indicated in the past and made, and more concessions have been indicated and are recommended. Such a procedure is not satisfactory. It does not count the cost. Nor does it indicate, whether the same result or even bigger result could not be brought about with the same outlay. The restrictions promise to remain, and working under these restrictions, how far can the central banks offer service to the public on the side of (1) receiving fixed and current deposits and (2) giving loans against adequate securities? The question to examine would be, whether they have the proper staff to handle these matters and whether they could handle them without serious risk to themselves. I would recommend that each province should, as an experiment, get some of the central banks, where the staff is suitable, to engage in ordinary banking business within definite instructions and limits. From the point of view of the ideal, that these 490 banks could some day serve not only the members of the movement, but the general public. Recent restrictions on hundi and other lines of business imposed on them appear to be in a retrograde direction. The idea that co-operative banks should do co-operation and nothing

else, is in itself unsound. The co-operative movement would gain much in popularity and these banks would be the means for getting the movement known to a larger public, if they were, within safe limits, to initiate general business. The position needs a careful examination, and it can hardly be brought about until the opinion of officials, who have much to say about the movement and much to do with it, and the opinion of non-official co-operators coincide on this point.

145. Other questions, affecting the prospects and working of joint stock banks in India, would be found in various places in the report. These are, the question of encouraging the use of cheques and more transactions being done by cheque, instead of by cash; the question of the larger vogue of trade bills, instead of cash credit; the question of the improvement of mortgage security and of the introduction of a system of equitable mortgages. A restriction on dividend beyond 6 per cent. has been suggested in the interests of the banks, so that reserves may be built up. For smaller joint stock banks in India, a vicious circle exists at present, in which, dividends, share values and deposits have a direct connection, and it is the provision for reserves, which suffers. If the idea is of building up a sound system, such a restriction is necessary, but it is only justifiable, when it is accompanied by concessions. The most outstanding concession recommended is, that Indian joint stock banks should feel, that, as against foreign banks, the field of internal banking is reserved for them. They should be further supported by the idea, that, though their field of activity is limited by the funds available, that portion of the savings of the Indian people, which becomes bank deposits, will not go elsewhere. Such measures will establish that direct economic link, which does not exist now openly and consciously, between those, who save, *viz.*, the depositors, those, who administer such savings, *viz.*, banks, and those, who use such savings by way of loans, *viz.*, trade and industry. The confining of the foreign element in the shareholding of Indian banks to a minority of 40 per cent., and directorate of Indian banks to a minority to be prescribed, will help in the promotion of this economic feeling of common interest amongst Indians. These are integral portions of the national policy, which is called for in India in the interests of the promotion of Indian joint stock banks.

CHAPTER XI.

FOREIGN BANKS—SOME HISTORICAL FACTS.

146. "Exchange Bank" is the name applied to these banks in the London banking world in order to distinguish them from other banks, but the use of this name in India is misleading and improper. Its introduction in the general banking literature would be as objectionable as the use of the words "Home banks",—not infrequent by the Englishmen in India, to describe banks in the United Kingdom. As will be shown later, for some of them at all events, the handling of foreign exchange and the financing of foreign trade have become a smaller and less profitable part of their activity. As they are, they have the larger part of the stage to themselves and in a discussion of banking in India, it is inevitable, as will be shown later, that the spot light should be kept on them. A more correct description from the Indian point of view would be to call them foreign banks, a description, which, by their attitude, they have deserved.

The extent to which foreign banks have consolidated their position in India and have become a menace to banking progress, cannot be realised without a close examination of their history and their growth in the past. It is a pity, therefore, that the Committee did not have these facts collected in order to appreciate the solid foundations, on which some of these institutions rest, the great advantages, which they have enjoyed in the past and which have enabled them to build up big reserves, their weight and political influence and their intolerance of the growth of local enterprise, even where such enterprise was controlled by Englishmen.

147. These remarks apply to British institutions, whose example and profitable career has attracted several foreign banks in recent years. The policy of the open door has borne fruit, and many nationalities are now represented, making the problem more difficult from the Indian point of view.

The East India Company, which originally had a monopoly of the trade, regarded the monopoly of exchange business as peculiarly its own. It was only when the power of the Company was really broken, that in 1853 a charter was given to the Chartered Bank of India, Australia and China. After this date the East India Company had really lost effective power and a monopoly, which they were anxious to preserve for themselves, and which might have been kept for the state, had their tradition been followed, was thrown open to new institutions. These new institutions, however, were not slow to realise the advantages, and they have held on to them as against Indian institutions with remarkable tenacity, sharing exclusive benefits amongst themselves.

I am indebted to the Bengal Provincial Committee for the following information:—" The next in point of age is the National Bank of India, established in 1863, under the name of the Calcutta

Banking Corporation, which was changed to the present name on March 2, 1864. The head office was at first in Calcutta, but was transferred to London in 1866. As a result of this, the bank lost its predominantly Indian character. It may be recalled in this connection that at the time of the transfer, four out of the seven directors were Indians, *viz.*, Baboo Durgachuran Law, Baboo Heralaul Seal, Baboo Patit Pabun Sein and Maneckjee Rustomjee, Esq. Of the two auditors, one was a Bengali,—Shamachurn Dey, Esq. The paid-up capital of Rs. 31,61,200 at the time was increased to £466,500, requiring representation of non-Indian interests on a wider scale. The Mercantile Bank of India has been in existence in its present name since 1892, but is actually much older. It was formed out of the Chartered Bank of Asia which obtained its charter as early as 1853 and of the Mercantile Bank of India, London and China started in Bombay in the same year. The Eastern Bank was incorporated in 1909. Lastly, the Peninsular and Oriental Banking Corporation was established in 1921, and from January 1, 1928, its control together with that of the Allahabad Bank, which had become affiliated to it, passed to the Chartered Bank of India, Australia and China. An important event in Indian banking is the recent entry of the Lloyds Bank, which, with the absorption of Messrs. Cox & Co., H. S. King & Co., and associated firms, has built up a considerable business in India. Of the Exchange Banks, which have no sterling capital, the oldest is the Hongkong and Shanghai Banking Corporation established by an ordinance of the Hongkong Legislative Council in 1867 ". How humiliating for the great British enterprise, the National, one of the Big Four amongst its fellow ' Exchange ' Banks, as it looked down Clive Street from its proud corner in the imperial days of Lord Curzon and after, to have this dark skeleton in its history, involving the presence of Indian directors on its board and actually an Indian auditor to look into its accounts!

148. Some idea of the capital engaged in banking business in India in 1863 and in 1900 may be derived from a minute on the establishment of a Central Bank by the Hon'ble Sir Edward Law, K.C.M.G., dated 31st January 1901.

" Referring again to Table B, we see that the total capital of the joint stock banks is now Rs. 19,86,09,500 and correcting this figure as above, to make allowance for the non-available portion of the capital of the Exchange Banks established abroad, we find the following results:—

	Rs.
Half capital of English Exchange Banks .	4,69,32,500
One-third capital of Foreign Exchange Banks .	2,93,10,833
India joint stock Banks	1,68,12,000
TOTAL .	9,30,55,333

To the above amount we must add the existing capital of the Presidency Banks Rs. 5,53,00,000 and we arrive at a sum of Rs. 14,83,55,333 as available to-day for trade requirements.

TABLE B.

Capital of Joint Stock Banks excluding the Presidency Banks.

Provincial Banks.

	Paid up Capital.	Reserve Fund.	Total.
	Rs.	Rs.	Rs.
1863.			
Simla Bank, Ld.	6,38,500	...	6,38,500
Agra Savings Fund	15,000	4,500	19,500*
Uncovenanted Service Bank, Ld	30,000	...	30,000*
Punjab Bank, Ld.	5,00,000	...	5,00,000
Central Bank of Western India	48,18,600	50,000	48,68,600*
			60,56,600
1900.			
Simla Bank Ltd.	10,00,000	12,50,000	22,50,000
Punjab Bank, Ltd.	1,78,750	1,75,000	3,53,750
Allahabad Bank, Ltd.	5,00,000	9,50,000	14,50,000
Bank of Calcutta, Ltd.	15,00,000	10,00,000	25,00,000
Bank of Upper India, Ltd.	10,00,000	5,40,000	15,40,000
Bhargava Commercial Bank, Ltd.	3,00,000	1,30,000	4,30,000
Oudh Commercial Bank, Ltd.	3,00,000	1,80,000	4,80,000
Kashmir Bank, Ltd.	1,00,000	32,000	1,32,000
Punjab National Bank, Ltd.	2,00,000	1,00,000	3,00,000
			94,35,750

Local Banks with London connection.

1863.			
Delhi Bank Corporation, Ltd.	20,00,000	60,000	20,60,000*
Commercial Bank of India, Ltd.	50,00,000	...	50,00,000
			70,60,000
1900.			
Commercial Bank of India, Ltd.	40,00,000	...	40,00,000
Delhi and London Bank, Ltd.	33,76,250	...	33,76,250
			73,76,250

* Closed.

Exchange Banks.

	Paid up Capital.	Reserve Fund.	Total.
	£	£	£
1863.			
Oriental Bank Corporation . . .	1,260,000	252,000	1,512,000*
Agra and United Service Bank, Ltd. .	1,000,000	200,000	1,200,000*
Chartered Mercantile Bank of India, London and China.	500,000	60,000	560,000
Chartered Bank of India, Australia and China.	644,000	10,000	654,000
Bank of Hindustan, China and Japan .	250,000	...	250,000*
Comptoir D'Escompte de Paris . .	1,600,000	334,000	1,934,000
			6,110,000
1900.			
Chartered Mercantile Bank of India, London and China.	561,500	30,000	591,500
Chartered Bank of India, Australia and China.	800,000	525,000	1,325,000
Comptoir D'Escompte de Paris . .	6,000,000	640,000	6,640,000
	T.S.	T.S.	T.S.
Deutsche Asiatische Bank . . .	5,000,000	...	5,000,000
Hongkong and Shanghai Banking Corporation.	10,000,000	1,000,000	11,000,000
National Bank of India, Ltd. . .	500,000	330,000	830,000

Summary.

	Total. 1863.	Total. 1900.
	Rs.	Rs.
Provincial Banks	60,56,600	94,35,750
Local Banks with London connection . .	70,60,000	73,76,250
Exchange Banks	6,11,00,000†	18,17,97,500‡
	7,42,16,600	19,86,09,500 "

149. The interesting facts, which are brought out in the above tables, are:—

(1) That several 'Exchange' Banks, which were established in India, closed their business. What was the extent of their operations in India and how much Indian money was lost, are points, which, I hope, will be ascertained.

(2) That the British 'Exchange' Banks, the original four, which now occupy such a large place on the canvas, were modest affairs in their origin with capital of from Rs. 50 lakhs to one crore.

* Closed.
† At £1 is equal to 10 rupees.
‡ do. do. 15 do.

(3) There must have been heavy profits, which enabled these banks to increase their capital and their reserves. The increase of the reserves of several institutions between 1900 and 1928, is indicated in the following table, which also gives particulars of the dividends declared.

	Year.	Capital.	Reserve.
Chartered . .	1900	£880,000	£325,000
	1928	£3,000,000	4,000,000
National . .	1900	£500,000	330,000
	1928	£2,000,000	2,950,000
Mercantile . .	1900	561,500	30,000
	1928	1,050,000	1,450,000
Hongkong . .	1900	Dlrs. 10,000,000	Dlrs. 100,000
	1928	£2,021,000	£6,000,000 (sterling) £1,415,000 (silver)
Comptoir . .	1900	Frs. 6,000,000	Frs. 640,000
	1928	„ 250,000,000	„ 113,878,000

National Bank of India.

Dividend :—

12 per cent. per annum for 8 years upto 1912.

16 per cent. per annum for 1913.

14 per cent. per annum for 1914* (with bonuses of 33⅓ per cent. in shares for 1907, of 25 per cent. in shares for 1910, and 2 per cent. in cash each year for 1912 and 1914).

16 per cent. for 1915, 1916, 1917, with bonus of 4 per cent. in addition for 1917.

20 per cent. from 1918 to 1929.

Mercantile Bank of India.

Dividend :

*8 per cent. for 1912, 1913 and 1914 for A and B.

10 per cent. for 1915.

12 per cent for 1916.

14 per cent. for 1917 and 1918.

16 per cent. from 1918 to 1929.

Chartered Bank.

Dividend : 14 per cent. for 12 years up to 1918—free of income-tax.

Bonus :

2½ per cent. for 1912
3 per cent. for 1913 and 1916
5 per cent. for 1917
6¼ per cent. for 1918
7 per cent. for 1919
} all free of income-tax.

Dividend from 1919 to 1929 was 20·25 per cent.

Hong-Kong Bank.

1916 to 1928 dividend given was 64 per cent.

* Free of tax.

In their origin these banks were started for business with India, which was for the United Kingdom the most important business. There is no doubt that English interests grew afterwards in various other places. But the tradition has remained and the importance of the Indian business has remained, and some of the institutions working in India are classified even in official documents as institutions, the major portion of whose activities are confined to India. Other institutions, whose period of activity in India began later, may also be presumed to have made corresponding gains. The idea of what these institutions have gained from India in the past, which the above table gives, is very necessary in order to appreciate not only the lack of gratitude, but the sheer brutality of some of the demands of the foreign banks, and of their opposition to some of the measures, which are being suggested for the encouragement of Indian institutions.

150. Forgetting their humble origin, they scoff at Indian effort as either mushroom or Swadeshi; oblivious of the warmth of official support and unrestricted opportunities placed at their disposal in the years of their early growth, they oppose all salutary restrictions and reservations in favour of Indian institutions. They have succeeded in intruding in the discussion of banking problems their crude notion of equality, which means that the field must be left to them free, so that they may continue to use India's money to hold intact their present monopoly, create a foreign money trust in this country by establishing as strong a position in the interior as they have done at the ports, and strangle in an unequal fight Indian institutions as soon as they raise their heads above the ground.

No appreciation of the position, which the foreign banks occupy in this country, can be made, nor of the measures required to improve the situation, that has become dangerous and alarming from the Indian point of view, unless a clear idea was gained of the position of these institutions since 1900 during the last thirty years. This is the explanation of some quotations from official documents, which I am giving below. The terms of reference definitely enjoin upon us the duty "to investigate past records" of banking in India. No apology is therefore needed for putting forward the views, which the 'exchange' banks have held about themselves, and which the Presidency Banks, high Government officials both in India and in London, and the Government of India and the Secretary of State held about them. In the following quotations I am letting the 'exchange' banks speak for themselves. I trust it will be remembered that many of the views were expressed by persons, who were examining the question from the banking point of view and who would not be accused of political bias. It is true that some of the opinions expressed in other connections would be somewhat inconvenient now, like the one, which pleads for high money rates, in order to prevent the "native producer" to hang on to his produce! Those, who uttered these words, hardly realised that a school of thought will grow, which will recognise that India belongs to these "native producers", that, in the

person of a great English gentleman, a Viceroy would come to this country, who would feel such a great concern for these "native producers" that he would appoint a Royal Commission to inquire into their condition and their difficulties, and that a Finance Member would come to appoint a Banking Committee with such wide terms as to permit, through the Provincial Enquiries, a thorough investigation into their financial needs and disabilities.

151. The extracts illustrate and bring out the views held by the 'exchange' banks on many subjects on their valuable services to this country and the importance of their institutions, and the spheres of activity in which they should be protected, on what the Imperial Bank or a new central state bank should not do, and on the inevitability of high money rates and the consequent harm that is done to this country. They also bring out the high esteem, in which the Government of India, and high Government officials held these institutions, and the extent to which high authorities were persuaded to give in to the pressure brought upon them by these interests.

Extract from the letter No. 17, dated 18th January 1900, from the Government of India, to the Secretary of State.

"There still remains one objection in connection with allowing a Central Bank access to London, which has been pressed upon us by the Exchange Banks who apprehend that such a Bank, enjoying the use of the Government balances and possibly entrusted with the note issue, would be placed in a position of unfair competition with themselves. We cannot see that the Exchange Banks make out a strong claim for protection, and a suggestion which has been made that a Central Bank should be bound to make any and all remittances through their agency is out of the question. But there is no desire to disturb existing business unnecessarily, and we think that the restrictions proposed by the Presidency Banks in 1877, namely, that they should be confined to raising money by pledge of assets and to making remittances in payment of stock or other authorised investments purchased or acquired for the Bank in England, and in repayment of loans arranged for them, might be maintained."

Letter from the Government of India, to the Secretary of State for India, No. 56, dated 22nd February 1900.

My Lord,

We have the honour to forward, for your Lordship's information, a memorial addressed to His Excellency the Viceroy, in which the Exchange Banks of Calcutta protest against the suggestion that a new bank formed by the amalgamation of the three Presidency Banks should be allowed to borrow in London by pledge of assets or otherwise and make remittances to England by bills of exchange or otherwise in repayment of loans and also in payment of the price of stock or other authorised investments purchased or acquired for

the bank. The Memorialists admit that they can have no objection "to the mere amalgamation of the Presidency Banks," and their specific prayer appears to be confined to the suggestion in the 21st paragraph that the sterling transactions of the proposed Bank of India "should be confined to the shipment and re-shipment of gold, and that the bank should be prohibited from selling or buying sterling bills or selling or buying telegraphic transfers save, of course, through existing channels, namely, the Exchange Banks."

2. As your Lordship will now have learned from our Despatch No. 17, dated the 18th January 1900, the suggestion which has aroused the apprehensions of the Memorialists has been definitely adopted by our Government and submitted for your Lordship's approval. Our despatch contains a full statement of the grounds on which our proposals are based, and in particular includes a brief expression of our views on the claims now urged by the Exchange Banks. We should have been content to forward the present memorial without comment did we not think it due to the Memorialists and the important interests that they represent to show that we have not failed to give the fullest consideration to the objections and suggestions that they have put before us.

3. It is stated by the Exchange Banks in the first and second paragraphs of their memorial that for the last forty years they have "practically financed the whole export and import trade of the country," while the Presidency Banks have devoted themselves entirely to financing the internal commerce. We cannot for a moment admit the correctness of this assertion. Though the Presidency Banks have hitherto been prohibited from engaging in exchange operations their resources (and through them the resources of the Government also) have been freely placed at the disposal of all sections of the commercial community, including the Exchange Banks themselves who now imply that they have financed the whole foreign trade, with their own capital exclusively. On this point we may let the Memorialists speak for themselves. In December last the associated Exchange Banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department and to urge upon the Government that any loans made by the Government should be made equally to the Exchange and to the Presidency Banks. When it was intimated that the Government would be unlikely to depart from their past practice of giving all loans *through* the Presidency Banks, the deputation asked that the Presidency Banks should not be permitted to pass on the Government money except to the Exchange Banks, or at any rate that the Exchange Banks should have the first call on it to the exclusion of local banks and merchants, European and Native. A few weeks later the Government were suddenly and urgently pressed by the managers of two of the Exchange Banks to advance Rs. 30 lakhs to the Bank of Bombay. It was represented that unless the money was forthcoming, there was danger of a serious commercial crisis, and of an important failure. The Exchange Banks, it was

explained, would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling. Sooner than have recourse to this means of obtaining funds they frankly preferred to let the crisis come. Happily the crisis was averted, we believe, by the action of one of the Presidency Banks.

4. It would therefore seem that the impression conveyed by the opening paragraphs of the memorial requires some qualification. At least it is not clear that the foreign trade of India can invariably rely upon being financed by the Exchange Banks who, very naturally, and properly, employ their money wherever it can be employed to most advantage, nor is it certain that the Exchange Banks are free from the besetting tendency to look to the Government balances instead of to their own resources. The recommendation, therefore, that the proposed amalgamated bank should be allowed, under certain restrictions, to borrow in London is not ruled out of court "in limine" by the consideration that the foreign trade is already amply financed by institutions exclusively employing their own capital.

5. But the serious objections of the memorialists are that the restrictions which it is proposed to place upon the operations of the projected bank are insufficient, and will expose them to dangerous competition. Moreover, they argue that the competition to which they fear to be exposed will not merely be the competition of a rival institution, but the competition of an institution "with all its contemplated resources and privileges and prestige as a State Bank." We desire, as we stated in our previous despatch, to avoid any unnecessary disturbance of existing business, and we regret that the advocacy of powers to borrow in London has aroused such deep apprehension. But we cannot but consider that this apprehension is much exaggerated. We can see no reason why a bank of India should not make its own remittances; the restrictions which we have proposed and which are correctly stated (except for the use of the word "India" instead of "England" in the last line but one of the paragraph) in the fourth paragraph of the memorial, will prevent it from doing more. We could have wished that this contention of the banks, which appears to us to be untenable, had been supported by some clearer indication of the actual manner in which the competition they deprecate may be expected to prove unfair and injurious. The demand that the Presidency Banks should have power to borrow in London is supported by practically every merchant in India, and will be still more vigorously supported if your Lordship should negative the proposals which have been made in several quarters for the free use of the Currency Reserve for loans.

6. We are at some loss to understand the further allegation of the Exchange Banks that they will not only be exposed to competition but to the competition of a State institution, or to follow the argument that the proposed legislation "will tend to an absolute

reversal of the policy of 1876 when the Government retired as much as possible from all connection with the affairs of the Presidency Banks, except so far as to keep a portion of their balances with such banks." The term State Bank can of course be used in several gradations of meaning, and seems to be so used in this memorial. The Memorialists, indeed, appear to argue that any bank, the custodian of the public balances, must necessarily be a State Bank: if this is their real meaning, it would be fair to conclude that they consider the Bank of England is a State Bank, which is notoriously not the case in the accepted meaning of ordinary language. But we imagine that they would not admit this conclusion, and we doubt whether they would deny that Government, without any question of constituting a State Bank, is entitled to use a bank, in a department separated from the Banking Department proper, as its agent for the management of its note issue. This is the relation between Her Majesty's Government and the Bank of England, and we propose to reproduce this arrangement in India with the modification that a link may be established between the proposed banking and issue departments, if your Lordship assents to the adoption in any form of the German system of authorising the issue of uncovered notes on payment of a tax. But this is a point not touched on by Memorialists, and the arguments that they direct against State competition seems hardly germane to the discussion of a project in which State intervention is restricted within such well-defined and well-recognised limits.

7. We notice, moreover, that the Memorialists have no objection on principle to our allowing resort to the currency reserve in times of financial stress; indeed they suggest this expedient as an alternative to the augmentation of banking capital. In our despatch of the 18th January we have explained our objections to this proposal, and we should not further discuss it here, but that the Memorialists have sought to justify it by a reference to the occurrences connected with the failure of the old Bank of Bombay in 1868. It will be well for us to recall the circumstances which render this precedent inapplicable. In June 1865 a severe commercial crisis occurred in Bombay, and there was a run on the bank, which was already crippled by reckless management. The Governor of Bombay telegraphed that unless he could give an assurance that the Government was prepared to advance the Bank Rs. 150 lakhs from the currency reserve there would be a great danger of the bank suspending payment, a result which he declared might involve "disaster, financial and political, more extensive than the mere stopping of the bank." The Government of the day authorised him to use his discretion: the assurance was given, and the panic allayed, without, as it proved, any actual withdrawal from the currency reserve. The facts were reported by the Local Government to the Secretary of State, who strictly prohibited the use of the reserve for this purpose on future occasions (Despatch No. 71, dated 8th September 1865). In February 1867, another panic occurred, and hte Local Government gave notice that the Govern-

ment were prepared "to support the bank with all their available resources." On this occasion the currency reserve was not mentioned, and was probably not intended. The reference in the memorial to these incidents would have been more apposite if they had been used to illustrate the evils of State connection with banking institutions. We, at any rate, can find in them no justification for any departure from the rule of maintaining the currency reserve for its proper function of guaranteeing the convertibility of the paper currency.

8. In the meantime we are informing the Exchange Banks that their memorial is being transmitted to your Lordship.

We have the honour to be, etc.,

(Signed) CURZON OF KEDLESTON.
E. H. H. COLLEN.
A. C. TRECOR.
C. E. DAWKINS.
T. RALIEGG.
DENZIL IBBETSON.

Memorial of Exchange Banks to the Viceroy, 1900.

To His Excellency the Right Honourable George Nathaniel Baron Curzon of Kedleston, G.M.S.I., G.M.I.E., in the County of Derby in the Peerage of Ireland, Viceroy and Governor-General of India.

The Humble Memorial of the Exchange Banks of Calcutta.

That your Memorialists are bankers, and that most of them have for the last forty years and upwards been intimately associated with the trade and commerce of India, and have practically during that period financed the whole export and import trade of the country, and have thus enabled that trade (which is still being financed by your Memorialists) to meet the fluctuations of exchange and to develop it to the extent to which it has developed of recent years. Your Memorialists have, for that purpose, utilised their capital, which amounts to about six millions sterling or thereabouts.

2. That in doing this they have met a great want of the trade aforesaid, the Presidency Banks since 1876 having been prohibited from financing such trade and having in consequence devoted themselves entirely to financing the internal commerce of the country.

3. That your Memorialists have under these circumstances noticed with considerable apprehension the recent suggestion that the new bank proposed to be founded should be allowed to borrow

in London, and enter into sterling operations in connection therewith,—a request which was refused to the existing Presidency Banks in the year 1878,—and they have observed that the Financial Member in his speech in Council on 5th January 1900 expressed an opinion that he saw no reason why, subject to the restrictions suggested by the Presidency Banks themselves in 1877 (on the occasion of the above-mentioned request being preferred), such course should not be followed, and that he thought that the Exchange Banks need have no apprehension on that account, as these restrictions would sufficiently provide against the new bank interfering with them.

4. That the restrictions so suggested by the letter of the Presidency Banks were that the Banks should have power,—

(*i*) To borrow money, either in India or England, by pledge of assets or otherwise, on such terms as to repayment of interest, etc., as the said bank may from time to time arrange;

(*ii*) To make remittances to England from time to time by Bills of Exchange or otherwise as may seem expedient in payment of the price of stock or other authorised investments purchased or acquired for the banks in India, and also in repayment of loans arranged for there.

5. That your Memorialists believe that these restrictions are not stringent enough to prevent the proposed Presidency Banks, or the new Bank proposed to be constructed by their amalgamation, from entering the Exchange markets and competing with your Memorialists in the purchase of bills on London,—a business which, as they have pointed out, has been carried on by them for forty years and upwards with great advantage to the commerce of India,—and they trust that such competition will not receive either the approbation or the active assistance of the Government of India, as it will have in all probability the effect of seriously interfering with your Memorialists in their present sphere of operations; but while they recognise that it was not the intention of Government or the Financial Member that the proposed amalgamated bank should so compete or deal in exchange, they believe that this result will take place unless more stringent restrictions are imposed.

6. That they would therefore venture respectfully to submit to your Excellency their views on the subject of the present scheme of amalgamation of the Presidency Banks and the proposal to afford access to the London market, and the restrictions they propose in the hope that they will receive at your Excellency's hands that sympathetic consideration which Your Excellency has ever evinced for the interests and prosperity of British capital in India.

7. That your Memorialists also believe that if the state of affairs provided for by Act II of 1898 had been allowed to continue and to fully develop, there would be no necessity for any large increase

of the capital of the Presidency Banks, and that with a stable rupee all the money wanted for the normal requirements of Indian trade and development could and would be found by your Memorialists and sterling capitalists engaged or interested in the commerce of India, especially if (as indeed has been suggested by the Bank of Bengal itself as well as by the Chamber of Commerce) in addition to those resources resort could be had to the paper currency reserve as has been done in times of financial stress, such as the Bombay Bank crisis of 1868; and in this connection your Memorialists would in passing observe that the very recent stringency in the money market, which was so acutely felt at Bombay in the middle of January 1900, was not due to the inability or unwillingness of Exchange Banks to meet the trade requirements, but was directly attributable to the action of the Secretary of State in suddenly cancelling the then subsisting notification issued under Act II of 1898 provided for the payment of rupees in India by telegraph against the deposit of sovereigns in London at the stable rate of 1*s* $4\frac{5}{32}$*d*., such action being wholly unexpected, having regard to the objects and reasons for the extension of Act II for two years by Act VIII of 1898, which are printed at page 297, Part V of the *Gazette of India*, July 9th, 1898.

8. That as regards the introduction of English capital into India, your Memorialists beg to draw your Excellency's attention to the observations made in an article in the "Money Market Review" of 30th December 1899, with which as a whole they agree A copy of this article is appended to this memorial.

9. That to the mere amalgamation of the Presidency Banks your Memorialists, of course, can have no objection; but they would at the same time point out (1) that the proposed legislation in its entirety will tend to an absolute reversal of the policy of 1876, when the Government retired as much as possible from all connection with the affairs of the Presidency Banks, except so far as to keep portion of their balances with such banks; (2) that such legislation will invade the sound existing restriction, under section 37 (*e*) of the Presidency Banks Act, 1876, as amended by Act V of 1879, whereby such banks are prohibited in effect from advancing to or on the personal security or credit of firms or individuals not resident or represented in India; and (3) that the new bank will be to all intents and purposes a State Bank with privileges as to its note issue.

10. That, further, with regard to the proposal to allow the Presidency Banks or the new bank to borrow in London, and to enter upon all sterling operations incident thereto, your Memorialists would also beg to point out and to lay great stress on the fact that by the proposed new departure the connection between the Government and the Presidency Banks would be drawn closer, and that the Presidency Banks, or their amalgamated representative, having to all intents and purposes become a State Bank, all the well known objections to the State competing with its subjects in matters relating to private enterprise would in that case become applicable.

11. That the intervention of the State in matters of trade has always been deprecated in England and in countries subject to British influence. State interference in such matters (the limits of which are pretty well known) has been generally confined to the control of railway and other large monopolies, and to the acquisition of postal and telegraph communications, and such State intervention or interference is based generally on the principle of protecting the less moneyed and dependent class of the community, and all schemes, except with that end, has been looked on with great suspicion and circumscribed and restricted in every way; the case of State railways in India being a solitary exception to this policy, based merely on the reluctance of private enterprise to come forward in the particular matter.

12. That on the acquisition by the British Government of the telegraphs in 1867 the rights of the railways,—the companies with whose rights the proposal of the Home Government conflicted,—were recognised to the utmost, and their interests were also carefully protected by their representatives in Parliament,—a course which is always open in England, where all interests are in some way represented in the Legislature, but which protection is not always open to interests in India when menaced by legislation.

13. That similar precautions were taken by the Government in 1886 on the starting of the parcel post to protect the carrying interests and to disarm opposition to that project, and there are numerous other instances of this nature, and in the matter of banking your Memorialists may point out that the extent of the operations of the British Postal Savings Bank is at the present moment causing considerable apprehension, and every effort is being made to prevent any suspicion of competition with the banking interests of that country, and such competition is deprecated and discountenanced in every possible way.

14. That your Memorialists humbly submit it is therefore incumbent on the Government of India to investigate this matter with more than ordinary care, considering the magnitude of the interests involved, and the results of such competition, when once entered into, and in this connection it is not overstating the case to say that if the new bank, with all its contemplated resources and privileges and prestige as a State Bank, were allowed to enter into active rivalry with the existing Exchange Banks, the latter would practically be swept out of the field and effaced, regard being also had to the magnitude of exchange operations in which the new bank would, under its proposed constitution and powers, be inevitably engaged, unless it were altogether debarred from any exchange operations.

15. That in the matter of State Banks your Memorialists quite admit that such banks are practically a necessary consequence where large amounts are raised by taxation, and that the Government must keep their balances somewhere, and that the custody of such balances must in the nature of things benefit one particular bank above

others; but they believe that the tendency of modern times is gradually to withdraw as much as possible from such preference and influence, and they suggest that such facilities should in no case be extended more than is absolutely necessary, and certainly not where they would lead to rivalry with old-established institutions.

16. That in the case of India and elsewhere such privileged banks are able to employ the Government balances as mercantile loans greatly to the public benefit, but it is a remarkable feature of the present proposal that the Bank of Bengal, in their letter of the Government on 2nd December 1898 (para. 17) suggest that if the Paper Currency Reserves were placed at their disposal, rules could easily be framed that would guard against use by the Exchange Banks of such reserves,—a suggestion which, if pursued, would invidiously oust the Exchange Banks from privileges which would be open to the rest of the mercantile community.

17. That with such proposals of the Bank of Bengal before them, the Exchange Banks feel the necessity for re-asserting "that the discrimination by the State between different classes of occupations and the favouring of one at the expense of the others, whether that one be farming or banking, printing or railroading, is not" (to adopt the words of a great American publicist) "legitimate legislation, and is an invasion of the equality of right and privilege which is a maxim of State Government, their occupation is honourable, it is beneficial to the public, and it deserves encouragement. It is not the business of the State to make discriminations in favour of one class against another, or in favour of one employment against another. The State can have no favourites. Its business is to protect the industry of all and give all the benefits of equal laws."

18. These propositions have been in effect recognised by the Government of India in relation to railway matters. In 1871 the Indian Government enunciated the proposition that it was evident that "the laws of the land relating to railways should be the same to whomsoever those railways belonged, and the law which governed companies' lines must also govern the railways of the State." This was acted on recently in the year 1896 in the matter of the repeal of the 81st section of the Railways Act of 1890, and in other cases of competition between State and other railways or carriers.

19. That your Memorialists feel that these principles are applicable to the situation created by the present proposals, and that your Excellency will hesitate to allow the competition of the State Bank in the exchange market after forty years interval, during which your Memorialists have utilised their capital in India and have built up their business, which after all (despite inevitable risks incurred) is not one in which large profits have or can be made, and that if your Excellency permits the concession asked for by the Presidency Banks, namely, access to the London money market, your Excellency will not grant it except on such terms as will preclude what is practically State competition with existing enterprise.

20. Your Memorialists beg also to draw your Excellency's attention to a paragraph in the statement of Mr. A de Rothschild before the Currency Commission (at page 186 of the Report) in which he proposes the establishment of a State Bank of India, and which paragraph is as follows:—

"The Bank should not conduct any exchange transactions, but should confine itself (like the existing Presidency Banks) exclusively to internal operations, and it would also, when necessary, make advances to the Indian Government against deficiency bills, which is frequently the case with the Bank of England."

21. That your Memorialists on this point suggest that, as the amalgamated banks are, or the new bank is, to have a sterling capital, it should be made a condition of such permission that all their sterling transactions should be confined to the shipment and reshipment of gold, and that the Presidency Banks or new bank should be prohibited from selling or buying sterling bills or selling or buying telegraphic transfers save, of course, through existing channels, namely, the Exchange Banks.

22. Your Memorialists have set out their views and apprehensions at some length on the matter which is of supreme importance as well to the country at large as to your Memorialists, but they quite appreciate that the Financial Member of your Excellency's Council evidently shares Mr. A. de Rothschild's view that the proposed bank should not deal in exchange in competition with your Memorialists, but what they fear is that unless the restrictions proposed by them or some others equally stringent be imposed, the result of the access to the London market will incidentally but inevitably be an amount of dealing in Exchange which will dislocate your Memorialists' operations and produce serious, if not overwhelming, competition without any benefit to the country, but the reverse, and that it will, as pointed out in the article in the "Money Market Review" hereto appended, check rather than stimulate the flow of loanable sterling capital from England to India.

23. Your Memorialists appeal to Your Excellency in this matter with confidence in your Excellency's anxiety to stimulate the introduction of sterling capital into India by private enterprise and to protect it when introduced, and they leave their case in your Excellency's hands in full confidence that it will at least be dealt with as considerately and fairly as if their interests were represented in your Excellency's Council.

Your Memorialists pray that the foregoing representations may be taken into careful consideration before any legislation be initiated on the subject-matter of the proposals to amalgamate the existing Presidency Banks or to establish a new bank on a sterling basis, and that any Bill that may be framed and passed for the purpose of giving legislative effect to such proposals may contain effectively stringent provisions preventing the amalgamated banks

or the new bank from competing with the Exchange Banks as and in manner indicated in this memorial.

(Signed) For the National Bank of India, Ltd.,
W. Touch, Manager.

For the Delhi and London Bank, Ltd.,
Geo. Ward, Manager.

For the Mercantile Bank of India, Ltd.,
H. G. Fidler, Manager, Calcutta.

For the Comptoir National D'Escompte de Paris,
E. Freyvogel, Manager.

For the Chartered Bank of India, Australia and China,
J. B. Lee, Agent.

For the Agra Bank, Limited.
F. G. Mayne, Manager, Calcutta.

For the Hongkong and Shanghai Banking Corporation,
P. E. Cameron, Agent.

Deutsche Asiatische Bank,
Jaup p.p. Gutschke.

Dated Calcutta, the third day of February, 1900.

No. 199, dated 13th June 1901, from the Government of India, to the Secretary of State.

(*Secretary of State's question No. VII*).—Is it desirable to entrust to a bank the management of the paper currency, due regard being had to the principles upon which it was established in 1862?

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Answer.—(Para. 9). It will thus be seen that we admit the force of some of the objections which have been raised against the scheme, the chief of which is the cost of providing the extra capital that would be required. Of the capital at present available for financing the trade of India it is difficult to form a precise estimate. The total capital of all the Joint Stock Banks amounts to Rs. 23,39,09,500 but this includes the whole capital of the Exchange Banks, a large proportion of which is employed out of India. It is impossible to fix what this proportion may be, but there is reason to believe that considerably less than one-half of

the capital of these banks could be made quickly available in India to meet special demands.

Extracts from the letter, dated 8th December, 1904, from R. Campbell, Esq., Chairman, National Bank of India, to the Secretary of State for India.

" The proposal that these banks should be allowed to engage in sterling exchange business is not a new one. It has been put forward time after time during the last 50 years, and with a small exception, allowing them within certain restrictions (which we maintain should be adhered to) to make customers' remittances to England, it has been steadily vetoed by the Government of India. * * * * For the last four or five years there has been no real monetary stringency in India, any trade demand for additional currency during the busy season having been promptly met by imports of sovereigns. The Exchange Banks with their large sterling resources in the shape of capital and deposits, amounting to probably not less than twenty millions sterling, have shown themselves ready and able to meet and even anticipate all India's requirements with the result that, for some years past, Indian trade has been conducted with ease and comfort, and without the drawbacks incident to monetary stringency and oppressive interest charges. * * * * It cannot be alleged that the Exchange Banks, whose business it has been for the past 50 years to finance the external trade of India, are incompetent to do so, and no complaint is heard of inefficiency or oppressive charges. We can only conclude therefore that, with less reason than ever, this is only another renewal of the attempt to get for the Presidency Banks the permission they have so long desired to operate in sterling exchange. The Exchange Banks have felt it their duty to oppose this demand on every occasion, their latest protest being addressed to the Government of India so recently as January, 1900. * * * * We repeat that the Presidency Banks should confine themselves to their legitimate business, leaving the negotiation of sterling bills to the Exchange Banks, whose business it is, and who, by reason of their organisation and their London establishments, are best able to appreciate the risks attaching thereto. We do not gather from your letter whether any and what limit is to be placed on the extent to which the proposed operations may be carried, or to the frequency with which they may be repeated. So far as we know, they might not only be of great magnitude but of constant repetition. By bringing in money from London, covering by sterling bills as soon as possible, repeating the operation and again covering, and so on, the Banks might for anything we know be constant huge operators in sterling exchange so long as the rate of interest, which they themselves fix, is at or over 6 per cent. We can hardly suppose that such a course would be within the spirit of the desired permission, but we mention it to show how easily the liberty might be abused and how the introduction of the thin end of the wedge would surely lead to further encroachments.

Should the Government by allowing the Presidency Banks to go outside their proper sphere and operate in sterling exchange now depart from the principle to which, as I shall presently show, they have hitherto adhered, that the Government business should not be entrusted to a bank which deals in foreign exchange; if this principle is now to be abandoned and if exchange banking is no longer to be regarded as a disqualification for Government business, it seems not an unreasonable suggestion that in that case the Exchange Banks should be allowed to compete for a share of the Government business, and the Government balances on such terms as the Government might consider satisfactory."

Extracts from the letter, dated 9th December, 1904, from J. H. Gwyther, Esq., Chairman, Chartered Bank of India, Australia and China, to L. Abrahams, Esq., Financial Secretary, India Office.

"The Exchange Banks have practically financed the whole export and import trade of India for many years, and would naturally view with apprehension any legislation which would have the effect of placing the Presidency Banks in a position to compete with them for exchange business, which may reasonably be regarded as the particular province of the Eastern Exchange Banks.

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"It follows, therefore, that the only method of raising funds in this country would be by advertising for sterling fixed deposits, as is the practice of the Exchange Banks, who allow, at the present time, interest at the rate of 4 per cent. per annum for money placed with them for 12 months fixed. With shipping charges to and from India, this would mean a cost over 5 per cent. per annum.

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"With reference to the method of remitting to India the funds raised in this country, I am of opinion that the Presidency Banks should be restricted to purchases of Council Bills, and returns should be confined to shipments of sovereigns, thereby preventing the Presidency Banks from entering into competition with the Exchange Banks in India.

"With reference to the further question of allowing the Presidency Banks to sell drafts on London for the requirements of their customers, I feel that the concession, although, as at present restricted, it is of no great importance, would be liable to gradual enlargement, and so would create in the minds of the Exchange Banks suspicion and friction."

Extracts from the letter, No. 351, dated 19th October, 1905, from the Government of India, Finance Department, to the Secretary of State for India.

"But it is also clear that the full amount of relief cannot be obtained if the privilege of importing British capital is to be

limited to the representatives of a particular section of the trading community, as the Exchange Banks claim to be. Indeed, so far as this point is concerned, it makes little difference whether the foreign banks confine themselves strictly to their special field, or engage also in general business. The exclusion of the leading local banks must in either case tend to raise the price of money above its natural level. * * *

"For the reasons set forth in the foregoing paragraphs we hold that the grant of sterling borrowing powers to the Presidency Banks is essential to the further reduction and equalization of market rates; that recent conditions, while in some respects abnormally favourable, are susceptible of improvement; and that in any case provision should be made for exceptional emergencies. This last point is closely connected with the aspect of the question to which we now pass on,—the effect of the refusal of access to London on the status of the Presidency Banks. * * *

"As regards the question of competition it is obvious that under the conditions which we propose the borrowing operations of the Presidency Banks will be so intermittent as to make it impossible for them to obtain a permanent hold upon the clientele of the Exchange Banks, while the powers of control which are to be entrusted to the Comptroller General will effectually prohibit those purely speculative transactions which have been fancifully suggested as the ulterior object which the Presidency Banks have in view. There will of course be slightly increased competition for bills in both directions, but not more than if the Exchange Banks had brought out the additional funds themselves. In making this a grievance the latter practically abandon their position that they are themselves prepared to keep the market fully supplied."

Extracts from the letter, dated 8th June, 1905, from the Secretary and Treasurer, Bank of Bombay, to the Secretary to Government of India, Finance Department.

"Now it is almost impossible to imagine that the extent of the borrowing operations of the Presidency Banks under the relative conditions to be imposed, could be of such an extent as to disturb the London money market, and there is no reason to suppose that the Presidency Banks would act in a way to affect the market against themselves * * * * It seems somewhat anomalous that one of the Exchange Banks which, themselves, make such large use of the London market, should endeavour to prevent the Presidency Banks from borrowing there on the ground that it would lead to disturbance of the market. Their own transactions must, in the nature of things, have a far more disturbing effect than those of the Presidency Banks could have, while the restrictions associated with the proposal, which the objection ignores, are such as to preclude all likelihood of the borrowing contemplated endangering the success of any Government operations."

Extracts from the letter, No. 27-Financial, dated London, the 16th March, 1906, from the Secretary of State for India, to the Government of India.

"I observe that the Presidency Banks in their letters now forwarded are at some pains to minimise these advantages; but, since they include the use without interest of Government balances seldom falling below three crores of rupees, I think that they must be regarded as substantial enough to justify, as a matter of fairness, and even to require (so long at least as there is not some very strong consideration of public interest to the contrary), the maintenance of the restriction now in question on the business of the Presidency Banks; a restriction which has been in force since these Banks and the Exchange Banks came into existence, and without which it is possible that some of the Exchange Banks might not have been established.

"I may add that any injury caused to the Exchange Banks by the competition of State-aided rivals would, in my opinion, be detrimental to their interests besides those of the institutions immediately affected. The four Exchange Banks whose representations were forwarded by my Predecessor possess large capital and other resources. I find that they purchased 24½ out of 36½ crores of bills and telegraphic transfers sold by the Secretary of State in Council in 1904-05. It is beyond doubt that, owing to their high standing, it is advantageous to the Secretary of State (and it may reasonably be presumed that it is advantageous to merchants engaged in trade between India and other countries) to be able to carry on remittance transactions through their agency, and to make use of the other facilities which they offer."

Extracts from the letter, No. 351, dated Simla, the 19th October, 1905, from the Government of India, Finance Department, to the Secretary of State for India.

"The older method by which the commercial community were taught to look to the Government for an appreciable part of the additional fund required in the busy season, and to call for State intervention on occasions of emergency, was inadequate and in some respects dangerous, and we shall be glad to replace it by an automatic system of dependence upon the sterling markets. But if we close the source of supply upon which the Presidency Banks formerly relied and continue to exclude them from the other, their position cannot but be seriously affected; and especially so, if the Exchange Banks should at any time make a systematic use of the advantages which they will then possess. We should view with grave apprehension any decision which thus tended to substitute in banking matters an irresponsible for a responsible agency. The Exchange Banks are not exclusively attached to India; they receive no special privileges from the Indian Government; and

we cannot expect them to acknowledge any obligations either to ourselves or to the Indian public. In this connection we may refer to the evidence given before the Currency Committee of 1898 regarding the transfer of their capital to England during the currency difficulties of 1893-99; and to our despatch No. 56, dated 22nd February 1900, which describes their action in 1899 when a serious commercial crisis was threatened in Bombay. The incident here referred to is specially relevant as an expample of the possible results of hampering the responsible local banks and relying upon the Exchange Banks to fill their place. This exclusive regard for their private interests is equally noticeable in their memorial on the Central Bank question in 1900 and in the present correspondence. We consider such an attitude to be perfectly legitimate, though it appears to us to assume an extravagant form in the objections to the reasonable proposal that the Presidency Banks should be allowed to remit small sums on behalf of their customers and in the argument that the occasional borrowings of the Presidency Banks might disturb the London market. But it justifies our reluctance to rely upon the Exchange Banks, under all circumstances, to discharge the functions which naturally belong to a Central Bank.

"On these broad grounds we resubmit our proposal to admit the Presidency Banks under suitable restrictions to the London money market. We hold strongly that the question is one to be decided solely on considerations of the public interest. But in deference to your wishes we have again examined it with special reference to the representations now before us, and are satisfied that additional limitations would reduce it to a nullity; that it involves no unfair or indeed appreciable competition; and that in whatever serious competition already exists it is the Exchange Banks who are the aggressors.

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"On the other hand we have to recognise the fact that the Presidency Banks are already exposed to competition in what is supposed to be their exclusive sphere of influence. As the Bank of Bombay points out, 'all the Exchange Banks consulted compete more or less keenly in the internal trade and this competition has been steadily growing and extending.' This statement is confirmed by the letters of the Banks of Bengal and Madras, and by the expressed readiness of one of the Exchange Banks to send out funds 'for local purposes.' It is within our own knowledge that one of them has been able to open branches in the Mofassal at places where the Presidency Banks are unable to work at a profit under the statutory restrictions imposed upon them; and we believe that this tendency to encroachment is in accordance with experience elsewhere. These considerations give point to the apprehensions expressed in earlier paragraph, and should at any rate be regarded as estopping the Exchange Banks from pleading for artificial methods of protection."

Extracts from the letter, No. 234, dated 8th June 1905, from the Bank of Bombay, to the Secretary to the Government of India, Finance Department.

" The Exchange Banks also deprecate competition by the Presidency Banks in exchange business, and unanimously point to the fact that for many years they have financed the export and import trade. They also particularly define the limits and scope of the business of the Presidency Banks. It has already been pointed out that the Exchange Banks have misconceived the nature of the proposals, and there seems to be no doubt that they have also formed an exaggerated opinion as to the extent to which the proposals, if sanctioned, will enable the Presidency Banks to enter into competition with them in exchange transactions. Remembering that the main object is not to obtain permission to operate in exchange, but to have power to borrow in London when necessity arises, and that the restrictions to be imposed are a Bank rate in India of 6 per cent. or higher, and Government approval of the form of the remittances in each case, it seems impossible to regard the proposals as conferring serious competitive power on the Presidency Banks. The remittance to and from India of the proceeds of loans cannot under any circumstances amount to more than a minute percentage of the total import and export trade. And the prospect presented by the Exchange Banks of the Presidency Banks bringing in money from London covering by sterling bills as soon as possible, repeating the operation and again covering, and so on, is opposed both to the spirit and letter of the proposals. There is, however, another side to the objection. While the Exchange Banks carefully allocate to themselves the exclusive privilege of financing the external trade, and to the Presidency Banks that of dealing with the internal trade and strongly protest against the Presidency Banks being allowed to encroach on their province as defined by themselves, they do not hesitate to compete with the Presidency Banks in the local and internal trade. The Exchange Banks do not mention this aspect of the case, except that one of them remarks that " since the new Currency Laws these Banks have been more disposed to send money to India for local purposes," but the fact is that all the Exchange Banks consulted compete, more or less keenly, in the internal trade, and this competition has been steadily growing and extending. The Directors maintain that in view of that competition the Exchange Banks are not entitled to plead competition with them in exchange business as a reason against the proposals."

Extracts from the letter, dated the 18th May 1905, from W. D. Cruikshank, Esq., Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance Department, Simla.

" The Exchange Banks lay great stress on their ability to keep India amply supplied with funds, and are at some pains to define

what they term the legitimate functions of themselves and the Presidency Banks respectively,—those of the former being, they say, to finance the import and export trade, and of the latter to finance the internal trade of the country. The National Bank, which has already opened a number of branches in the interior, submits that the Exchange Banks with their large sterling resources have shown themselves ready and able to meet and even anticipate all India's requirements, while the Chartered Bank says: "Since the new currency laws these (Exchange) Banks have been more disposed to send money to India for local purposes, and the recent policy of the Indian Council in regulating the sale of their bills according to the requirements of trade has very much lessened the probability of extreme rates of interest for more than short periods." These Banks do not propose to confine their business within the limits they for the present define as legitimate, but they apparently consider that they should be free to finance internal as well as external trade while the operations of the Presidency Banks are to be so hampered in the field of local trade as to invite competition on favourable terms.

The Directors do not question the ability of the Exchange Banks to keep India supplied with funds, seeing that they have the resources of the London market to rely on; indeed experience has shown that these Banks are in a position to flood the Indian money markets with a superabundance of money or to curtail supplies at their pleasure. There is reason, however, to doubt the willingness of the Exchange Banks to import funds when the Secretary of State's terms for bills and wire transfers are not to their liking, or when a rise in the rates of interest in the Indian money markets would suit them. On such occasions they undoubtedly look upon the Presidency Banks as their legitimate local resort, while the Government of India are at the same time concerned, and not unreasonably, lest the accommodation claimed by the Exchange Banks should interfere with the sale of Council Bills. In such circumstances conditions of stringency become pronounced, the money market becomes strained, and it would undoubtedly be to the advantage of Government and the public if the Presidency Banks were permitted to relieve the strain by the prompt importation of funds from England."

Extract from "The Gazette of India", dated February, 16th, 1907. Presidency Banks (Amendment) Bill.

The Honourble Mr. E. N. Baker, C.S.I., moved that the report of the Select Committee on the Bill further to amend the Presidency Banks Act, 1876, be taken into consideration. He said: "I will take the opportunity of offering some observations on one point which is not referred to in the Report,—I mean the question of allowing the Presidency Banks to borrow in London."

"Disappointment has been expressed by the Chambers of Commerce that this proposal, which had been under consideration

for some time, should have been abandoned, and some of them have asked for a statement of the reasons which have led to this result. The request is reasonable, and I shall endeavour to comply with it.

"At the outset I may observe that the question is one on which there is a good deal to be said on both sides. The financial advisers of the Government of India at different times have held different views regarding it, and we find such high authorities as Mr. Barclay Chapman and Sir John Strachey holding one opinion, while Sir James Westland held a contrary one, and Sir Clinton Dawkins only assented to the proposal on conditions which were quite unacceptable to the banks, a cautious person would probably be disposed to regard it with prudent reserve. But there is one authority which, since the proposal was first originated over forty years ago, has never wavered in his views on the subject, and that is the Secretary of State. Now I would remind the Council that the Secretary of State has access to the highest expert banking advice in London, *i.e.*, probably in the world, and it is a well known fact that, acting on that advice, each successive Secretary of State to whom the proposal has been submitted has refused to entertain it. This fact, I think, possesses no small significance.

"The reasons for not adopting the proposal are these. Firstly it is not clear that to give the Presidency Banks access to London would really increase the net aggregate facilities for importing capital into India. The Exchange Banks with their large capital and resources collected from many parts of the world, and free from the special restrictions which necessarily attach to the Presidency Banks, possess ample facilities for supplying all the capital that Indian trade requires. To admit the Presidency Banks into this class of business would add a new channel of import, but would in no way increase the supply of capital offering. If it is the case that the total funds imported to India in the busy season would not be increased by the means in question, it is preferable in the public interest that the business should be left to the Exchange Banks, rather than that the Presidency Banks should be enabled to embark upon it. This I shall now endeavour to show.

"I am not now referring to the risks which were formerly held to attach to engaging in foreign exchange business. That objection was a powerful one in former days, but with a stable exchange it has lost almost all its force. The objections to which I allude are of a different character.

"It is of course well understood that the Presidency Banks could not legitimately be allowed to receive deposits or engage in ordinary banking business in London. If, therefore, they were allowed access to London it would mean merely that they would be permitted to borrow in that market (subject to certain restrictions), to remit the funds thus borrowed to India, and, after the term of the loan had expired to return the money to London for repayment. In other words, all sums thus brought out to India by the Presi-

dency Banks would have to be remitted back to London, after a comparatively short interval. Now with the Exchange Banks that is not wholly the case. Part of what they import, no doubt goes back again but part of it at least remains in this country, even during the slack season. This has been shown, among other things, by the comparatively small reflux of gold which has taken place each year at the end of the busy season. The capital, which thus remains in India, and is not re-exported, is available for investment in our rupee loans, which are always floated in the summer months, and improves the rate which we obtain for them.

" If therefore, we allow the Presidency Banks to attract to themselves part of the business of importing capital which is now done by the Exchange Banks, one result would be that the issue price of Government loans would be likely to suffer.

" Another result of analogous character would be that the average rate obtained for the Secretary of State's Council drawings would probably be lowered. The necessity for returning the money to London when the busy season was over would depress exchange during the slack months. And this would not be counterbalanced by a rise during the busy months, for during the latter exchange is always high, and could not be raised appreciably higher without specie point. The net result for the whole twelve months would thus be a fall.

" A third objection is that a Presidency Bank which had taken a sterling loan for a fixed term might be forced to denude itself of resources in a time of stringency in order to repay it when due. This danger may be regarded as theoretical rather than practical; but it is a contingency which cannot be wholly overlooked in a general review of the position.

" Lastly we have to consider the effect on the Exchange Banks themselves of permitting the Presidency Banks to embark upon a limited competition with them in financing the foreign trade of the country. The Exchange Banks play a most important part in providing for the requirements of this trade, and hitherto they have, I believe, discharged their functions to the general satisfaction of the commercial public. They have, of course, no claim to be protected against competition in their business, but the competition must be on equal terms and they might fairly complain if they were required to enter the lists against a State-aided competitor. It has sometimes been affirmed that the use of the Government balance free of interest, and the general prestige which attaches to the position of State bankers are of comparatively little value, and are counter-balanced by the restrictions which are imposed by the law and the contracts made thereunder. I do not think that rivals in the same field can be expected to regard the matter in the same light. The Government balances are usually about 3 crores of rupees, say, five-sixths of the aggregate paid in capital of the three Presidency Banks taken together. It cannot reasonably be disputed that the free use of this very large sum

must be of the greatest value to the banks, and I may mention that occasions have occurred, not so very long ago, when the Government balances at one or other of the banks actually exceeded its whole cash resources. If the Exchange Banks are apprehensive of having to encounter such powerfully aided competitors, one cannot regard their apprehensions as altogether unreasonable.

"These, my Lord, are the reasons which have led to the decision not to pursue the proposal to give the Presidency Banks power to borrow in London. We all sympathise with the desire of the Chambers of Commerce to afford facilities for the easy provision of cheap capital; but it is open to doubt whether this particular measure would really increase existing facilities, while it is likely to be attended by drawbacks and disadvantages of its own.

"I do not think I need offer any remarks on any other provisions of the bill."

The motion was put and agreed to.

The Honourable Mr. Baker moved that the Bill as amended be passed.

The motion was put and agreed to.

The Council adjourned to Friday the 1st March 1907.

J. M. Macpherson,
Secretary to the Government of India,
Legislative Department.

Calcutta;
The 15th February, 1907.

Extracts from Prof. Keynes' note on State Bank (1913, Chamberlain Commission's Report).

"No important object would be served by allowing the Bank to compete with the Exchange Banks in attracting deposits in London. Nor is there any clear advantage (sufficient to counterbalance the opposition which would be aroused) in allowing it to enter into the regular business of trade remittance by buying trade bills in both directions. Such competition with the Exchange Banks is in no way necessary to the prime objects of a State Bank.

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"The London Office of the State Bank would be, therefore, a comparatively small affair. It would have no direct dealings with the public, only with the Secretary of State, the Money Market, and other Banks. The Secretary of State would continue to do his ordinary banking business with the Bank of England and

to maintain a balance there; and it would be the business of the London Office of the State Bank to keep him in funds. The main point for discussion is as to what the best machinery will be for carrying out the remittance transactions wherewith to keep the Secretary of State in funds.

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Some Adverse Criticisms.

"The Exchange Banks seem likely to oppose any substantial change in the present position. Their legitimate trading interest, however, are very fully safeguarded in the above proposals; and, as they will share in the advantage of increased stability in the Indian financial system, opposition will probably be mistaken even in their own interests. They will be but repeating the mistake which they made in 1892 in opposing the closure of the mints. It might have been expected that they would have welcomed a measure intended to introduce stability into their business, and which has in fact made the fortunes of all of them. But they held at that time that it was on the fluctuations of exchange and on the supposed bounty given to exports by a depreciating currency that they chiefly depended for their profits.

In 1900-01 the amount of consideration which should be paid to the exclusive claims of the Exchange Banks was the subject of some difference of opinion between the Government of India and the Secretary of State. The former wrote:—"We cannot see that the Exchange Banks make out a strong claim for protection, and a suggestion which has been made that a Central Bank should be bound to make any and all remittances through their agency is out of the question." And, later, in answer to the Exchange Banks' protest against "State-aided Competition":—"We could have wished that this contention of the Banks, which appears to us to be untenable, had been supported by some clearer indication of the actual manner in which the competition they deprecate may be expected to prove unfair and injurious." This comment is equally applicable to the evidence given to ourselves by Mr. Toomey and Mr. Fraser. As arising out of this evidence, it may be pointed out that the Exchange Banks have absolutely unrestricted opportunities for purely Indian business, that this side of their activities has very greatly increased, and that Mr. Toomey deliberately depreciated the importance to them of the business of attracting deposits in London for use in India, a part of their business on which they used greatly to pride themselves and which was at one time no small part of the ground on which they claimed special consideration."

Extracts from the evidence of Mr. J. A. Toomey and Mr. T. Fraser, Representatives of Exchange Banks, before the Royal Commission on Indian Finance and Currency, 1913.

Question No. 2810.—Would your objections be met to any appreciable extent if the State bank were precluded from accept-

ing deposits in London,—outside India?—(Mr. Fraser) That would not help. (Mr. Toomey) No, that would not help the situation at all. (Mr. Fraser) I do not think the Central Bank would ever come here for deposits. Our deposits in London are not such an all important item in our business and I do not think they would come here and compete.

Question No. 2811.—Am I to understand then that the exchange banks do not regard it as an important part of their business to attract funds in London and use them in India for financing trade? (Mr. Toomey) We take deposits in London, and we certainly look upon that as an important factor in our business.

Question No. 2812.—That part of your business would be left untouched?—Yes, but it is not such a very large item. (Mr. Fraser) The question, of course, is a central bank with power to borrow in London. The assumption is that they would either offer the same rate as we do or a better rate, and the chances are that they would offer a better rate than the exchange banks in all probability, having regard to the fact that they have the backing of the Government.

Question No. 2813.—If the State bank were precluded from attracting deposits outside India would that remove your objection?—(Mr. Toomey) No, not at all. (Mr. Fraser) Certainly not.

Question No. 2814.—Your reason for this answer is that that part of your business, namely, attracting funds in London for financing Indian trade, is not an important part of your business; is that it? (Mr. Toomey) We say that if the State bank had a London office and did exchange business we would be driven off the field.

Question No. 2815.—I understand you to say that, and I am trying to get at your reasons for saying it. I have pointed out one part of your business which would be unaffected, and I understand your answer to be that that is not an important part?—The London deposits are not so very important.

Question No. 2816.—(Chairman) In speaking of London deposits, do you mean English money or United Kingdom money? —Yes.

Question No. 2817.—(Mr. Keynes) You would, therefore, lay no stress upon the claim which has sometimes been made by the exchange banks that they play a most important part in financing Indian trade by attracting funds in London for that purpose?—We do not make a point of that.

Question No. 2648.—(Chairman) I want to draw your attention, with reference to something you have said, to an expression of the views of the Government of India. I have before me a letter from the Government of India to the Secretary of State, No. 56, dated 22nd February 1900. He was then being sent by the Government of India memorial from the exchange banks on this very question, and in that memorial, as quoted in paragraph 3 of the letter, it is stated by the exchange banks very much what

you have said to-day, that " for the last 40 years they have practically financed the whole " export and import trade of the ' country ' ", while the Presidency banks have devoted themselves entirely to financing the internal commerce." I desire to call your attention to the comments on that of the Government of India. They say, " We cannot for a moment admit the correctness of this assertion. Though the Presidency banks have hitherto been prohibited from engaging in exchange operations their resources (and through them the resources of the Government also) have been freely placed at the disposal of all sections of the commercial community, including the exchange banks themselves who now imply that they have financed the whole foreign trade with their own capital exclusively." Then they proceed to say, " On this point we may let the memorialists speak for themselves. In December last the associated exchange banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department and to urge upon the Government that any loans made by the Government should be made equally to the exchange and to the Presidency banks. When it was intimated that the Government would be unlikely to depart from their past practice of giving all loans through the Presidency banks, the deputation asked that the *Presidency banks should not be permitted to pass on the Government money except to the exchange banks, or at any rate that the exchange banks should have the first call on it to the exclusion of local banks and merchants, European and native.* A few weeks later the Government were suddenly and urgently pressed by the managers of two of the exchange banks to advance Rs. 30 lakhs to the Bank of Bombay ",—this was written in 1900. " It was represented that unless the money was forthcoming, there was danger of a serious commercial crisis, and of an important failure. The exchange banks, it was explained, would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling. Sooner than have recourse to this means of obtaining funds they frankly preferred to let the crisis come. Happily the crisis was averted, mainly, we believe, by the action of one of the Presidency banks." You observe that in that paragraph the Government of India challenges " ab initio " your claim that the exchange banks have successfully and completely financed the external trade of India?—No other body of people have financed the foreign trade of India. Might I look at the first point?

Question No. 2649.—Certainly (handing letter to Mr. Toomey). (After reading) Neither my friend nor I knew anything at all about this. The paragraph says, " the associated exchange banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department, and to urge upon the Government that any loans made by the Government should be made equally to the

exchange and to the Presidency banks."—We knew nothing about that in London and we should not uphold it.

Question No. 2650.—Sir Shapurji suggests to me that the London office did repudiate that?—I knew nothing about it. (Mr. Fraser) I was on leave at the time, and I knew nothing about it.

Question No. 2651.—(Mr. Gladstone) You were in India in 1900, were you not?—Not at that time; I did not go out till May 1900. (Mr. Toomey) I was not in India then. We certainly knew nothing about it, and we certainly would not endorse it.

Question No. 2652.—(Chairman) Now look at the last sentence of the paragraph. " The exchange banks, it was explained, would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling "? Before that it says " When it was intimated that the Government would be unlikely to depart from their past practice of giving loans through the Presidency banks, the deputation asked that the Presidency banks should not be permitted to pass on the Government money except to the exchange banks, or at any rate that the exchange banks should have the first call on it."—We know nothing about that, and we do not endorse it.

Question No. 2653.—Will you just look again at the last sentence?—I cannot imagine what the deputation consisted of. Certainly, the whole thing would have been repudiated by the London offices of the banks; do you not think so? (Mr. Fraser) Yes.

Question No. 2654.—I pass away from that. Are the exchange banks widely represented throughout India? (Mr. Toomey) They are fairly well represented. We have a good many branches up-country.

Question No. 2655.—In those branches you are competing with the Presidency banks, are you not? We have some branches where the Presidency banks are not represented.

Question No. 2656.—But in many cases you would be in competition with the Presidency banks? To some extent. (Mr. Fraser) As far as the Chartered Bank is concerned, we are only represented in two up-country branches. Our main object in going to Delhi and Amritsar, the only two points at which we are represented, was to foster our Manchester connection, which is part of our exchange business, and our sales of bar gold, which also we consider part of our exchange business. Both Delhi and Amritsar are good markets for gold. (Mr. Toomey) That is practically what we are there for too,—financing Manchester business chiefly.

Question No. 2855.—Would you say a 7 or 8 per cent. bank rate would help you?—It does not hurt anybody.

Question No. 2856.—It does not hurt anybody?—Not for the two or three months: (Mr. Fraser) If you make money very cheap

the native hangs on to his produce, and I do not think the merchant or exporter would thank you very much for that.

Question No. 2923.—Assuming a lower bank rate, is not that a benefit to trade?—I do not think people in India are looking out for lower bank rates. (Mr. Fraser) You can have such a thing as too low a bank rate, especially in India. When you have a very low bank rate it always encourages speculation, and it would very probably bring about a state of affairs which you would rather wish to avoid.

Question No. 2860.—Within the last ten years* there has been an extraordinary growth of deposit banking in India?—Yes, and the resources of the exchange banks have steadily grown.

Question No. 2861.—The figures published in the official statistics are that the Indian deposits of the exchange banks in 1901 were £7,900,000 and in 1910 £16,200,000.—There has been a steady growth of deposits.

Question No. 2881.—How do you feel in regard to these figures; in 1910 the total deposits, excluding public deposits, in India were about 55 millions?—What does that include?

Question No. 2935.—My suggestion was meant to refer not to your whole business, but only to the Indian part of it. Would it be possible to publish average balance sheets? I do not mean that you should publish them weekly, but that your six-monthly balance sheets should be average balance sheets for the six months and not balance sheets for a particular day?—I should think that could be done.† There is always a danger of too much legislation in banking, which we all deprecate. One does not want to be too much under the Government.

Question No. 2970.—You said this morning, in respect of your up-country branches, you do not come into competition with the Presidency banks? (Mr. Toomey) Not to any extent.

Question No. 2971.—Would you say,—it is a point which is bound to arise,—the same with regard to your operations in the Presidency towns?—We may do the same class of business as the Presidency banks, but there is room for all in these Presidency towns.

Question No. 2972.—I know that argument, and, of course, that would be the argument that would be used against you with regard to the exchange market probably. That is just the point I wanted to know, whether you are competing or not?

We have a local business as well as our exchange business; we have to run one with the other.

Answer to question No. 2621, Royal Commission on Currency, 1913.

In 1904 it was proposed (1) that the Presidency banks should be allowed, when the bank rate in India is 6 per cent. or higher, to

* 1900 to 1910.
† But this has never been done.

borrow in London for the purpose of remitting funds to India; and (2) that the banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the money borrowed to or from India.

The powers were sought by the Presidency banks, but "the Government of India with the approval of the Secretary of State, declined to grant the powers sought by the Presidency banks, and the reasons for this decision were fully explained by the then Finance Minister, in his speech reported in the Gazette of India of 16th February 1907, of which we have sent you a copy. The exchange banks at that time felt it incumbent on them to oppose
exchange banks at that time felt it incumbent on them to oppose
so again on the same grounds, namely, that while we do not deprecate ordinary competition by competitors on the same level as ourselves, we strongly object to State-aided competition......

The exchange banks have been financing the foreign trade of the country, in some cases for 50 years and more, and no complaints are heard as to any inefficiency or shortcomings on their part. They fill a most important place in the conduct of India's trade, and their record entitles them to every consideration on the part of the Government when dealing with any contemplated changes. The exchange banks do not fear competition by competitors on their own level, but it is easy to see that they could not compete successfully against a State bank with immense sums of public money at its disposal free of charge. Such an institution would have a most unfair advantage over the existing banks. It would create a monopoly in exchange banking, and by its being able to work on terms which the present banks could not touch, have the power to cripple them without having the power to take their place. It would be a distinct disadvantage to merchants in all parts of India that such a monopoly should be created, and that any weakening of the exchange banks should result."

152. The last extract is, to my mind, the biggest gem coming from those, who have enjoyed a virtual and effective monopoly for over fifty years, and who prevented that monopoly being broken either in the interests of financing for the capital requirements of this country, or lower money rates, or other banks. Those, who claim that loans from currency reserves should be given to them, or that they should have exclusive and preferential rights to such assistance, are appealing against a state-aided institution being set up for dealing in exchange, on the ground that it would create a monopoly, but the boot is on the other leg. Such a proposal has definitely emanated from our Committee eighteen years after these words were spoken. It has more than ordinary application to the present conditions and the fact that the majority of the members, including the Chairman, have sponsored the proposal of a state-aided institution with the monopoly of remittance business, would indicate how far the evil has increased.

CHAPTER XII.

FOREIGN BANKS—SOME STATISTICAL FACTS.

153. The only information with regard to foreign banks working in India, which is available to the public, is contained in the following table. Its paucity, its misleading character through everything being lumped together, and the absence of other details, detracts from its usefulness.

—	No. of Banks.	Capital and Reserve.			Deposits.		Cash balances at Head Offices and branches.	
		Capital.	Reserve and Rest.	Total.	Out of India.	In India.	Out of India.	In India.
1	2	3	4	5	6	7	8	9
		(£1,000)	(£1,000)	(£1,000)	(£1,000)	(Rs. 1,000)	(£1,000)	(Rs.1,000)
1870 . .	3	2,004	180	2,184	2,688	52,31	2,611	61,13
1880 . .	4	2,532	541	3,073	7,305	3,39,88	2,046	1,80,09
1890 . .	5	6,384	1,699	8,083	30,734	7,53,60	5,810	3,50,43
1900 . .	8	11,803	3,971	15,774	54,263	10,50,35	11,945	2,39,58
1905 . .	10	15,204	7,219	22,423	94,536	17,04,45	21,504	3,78,13
1906 . .	10	15,866	8,421	24,287	104,457	18,08,73	18,436	5,10,59
1907 . .	10	16,671	9,320	25,991	94,778	19,17,01	14,860	5,60,20
1908 . .	10	16,692	9,149	25,841	103,289	19,51,52	16,665	3,78,63
1909 . .	10	18,952	11,211	30,163	116,021	20,27,42	18,121	4,15,86
1910 . .	11	21,734	12,610	34,344	134,166	24,79,17	17,810	4,38,51
1911 . .	12	22,600	13,001	35,601	157,764	28,16,90	22,136	4,56,91
1912 . .	12	23,657	13,980	37,637	172,038	29,53,62	23,082	6,14,82
1913 . .	12	23,640	14,185	37,825	181,138	31,03,54	25,688	5,88,24
1914 . .	11	22,815	14,157	36,972	164,970	30,14,76	40,694	8,39,37
1915 . .	11	22,681	14,112	36,793	179,948	33,54,56	45,111	7,60,13
1916 . .	10(*a*)	22,836	15,095	37,931	208,232	38,03,88	41,567	10,14,01
1917 . .	9(*b*)	18,384	14,298	32,682	228,001	53,37,53	54,765	33,74,37
1918 . .	10(*c*)	22,269	17,180	39,449	305,937	61,85.60	57,981	15,17,55

(*a*) Excluding the Delhi and London Bank which was amalgamated with the Alliance Bank of Simla, Ltd.

(*b*) Excluding the Russo-Asiatic Bank, information not being available.

(*c*) Including the Bank of Taiwan which opened a branch in India.

—	No. of Banks.	Capital and Reserve.			Deposits.		Cash balances at Head Offices and branches.	
		Capital.	Reserve and Rest.	Total.	Out of India.	In India.	Out of India.	In India.
1	2	3	4	5	6	7	8	9
		(£1,000)	(£1,000)	(£1,000)	(£1,000)	(Rs. 1,000)	(£1,000)	(Rs.1,000)
1919 . .	11(*d*)	31,931	21,139	53,070	433,001	74,35,90	63,571	29,98,32
1920 . .	15(*e*)	54,198	36,019	90,217	513,671	74,80,71	84,197	25,17,53
1921 . .	17(*f*)	66,369	45,263	111,632	526,473	75,19,61	82,318	23,56,74
1922 . .	18(*g*)	66,541	45,680	112,221	527,348	73,38,44	81,654	16,17,63
1923 .	A 5	9,644	8,767	18,511	62,386	51,29,78	9,425	9,78,23
	B 13	73,394	48,198	121,592	832,560	17,14,50	108,490	4,69,63
1924 .	A 5	9,644	10,063	19,707	65,786	48,93,45	9,703	9,71,18
	B 13(*h*)	62,894	47,863	110,757	778,896	21,70,03	104,945	6,65,51
1925 .	A 5	9,644	10,392	20,036	75,604	50,57,43	11,351	6,49,72
	B 13	64,586	53,689	118,275	847,957	19,97,14	110,407	2,91,89
1926 .	A 5	9,644	10,471	20,115	73,533	51,07,24	14,234	7,32,99
	B 13	67,769	60,119	127,888	896,353	20,46,98	122,052	3,39,85
1927 .	A 6	9,769	10,878	20,647	71,640	49,23,33	8,836	5,40,14
	B 12	83,027	77,246	160,273	1,214,315	19,62,90	195,263	2,72,99

A.—Banks doing a considerable portion of their business in India, *i.e.*, having 25 per cent. or more of their deposits in India.

B.—Banks which are merely agencies of large banking corporation doing a major portion of their business abroad, *i.e.*, having less than 25 per cent. of their deposits in India.

(*d*) Including the Sumitomo Bank which has a branch in India.

(*e*) Including the Imperial Bank of Persia, the National Bank of South Africa, the P. & O. Banking Corporation and the Banco Nacional Ultramarin.

(*f*) Including the Nederlandsche Handel-Maatschappij and the Nederlandsch Indische Handelsbank.

(*g*) Including the American Express Company Incorporated.

(*h*) Excluding the National Bank of South Africa but including Thomas Cook & Son (Bankers).

The Director-General of Statistics says:—

"The returns of Exchange Banks have been classified from 1923 into two groups, namely (A) banks doing a considerable portion of their business in India, and (B) banks which are agencies of large banking corporations doing a major portion of their business abroad."

The official statistician does not know what an agency is, and how a mere "agency", like Lloyds, can do lot more work than

important local institutions, in spite of the fact, that " the major portion of their business is done abroad ". This Government publication does not inform us, which are the banks " doing a considerable portion of their business in India ". What is a considerable portion? Is it a considerable portion of money raised, or is it a considerable portion of loans given out, or, again, of cash kept against obligations? It is, of course, well known, that foreign banks have, in the matter of information regarding their activities, deprecated the curiosity and inquisitiveness of the Indian public. I regret, that at no time did they think it necessary to place this information even before the Central Banking Committee.

The number of branches of foreign institutions in India would be best seen as follows:—

Year.	No. of Banks.	No. of Branches.
1914	11	44
1928	18*	86

154. *Banking service or economic invasion.*—If the mere increase of banking figures could signify progress, the amounts in the foregoing tables might be a cause for rejoicing. According to the foreign " experts ", this was the case, but to my mind, the increase gives room for great apprehension. I cannot regard the arrival of foreign banks in this country in large numbers through the open door, and their entrenching themselves in powerful positions, in the light merely of an increase of banking service.† I regard it as part of the economic invasion of India. The foreign banks are not, by any means, taking up the position assigned to them in any well considered national policy. They are creating an adverse vested interest, which it would be very difficult for India to deal with. Already, the practice of free entry and free trade in the past has brought to the forefront the question of trading ' rights ' in their application to banks.

It is the profitableness of the field,‡ which has attracted them and which is keeping them here. The depression, through which the world is passing, and particularly the reduction in trade all over, might for the moment, have made it appear, that the profits are gone. It was definitely the suggestion of Sir Norman Murray,

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* (According to Bombay Provincial Banking Committee 19 in 1930.)

† " According to point 1 of the Committee's conclusion, it is considered not desirable that the country should be dependent on the facilities afforded by non-Indian institutions for the financing of foreign trade. No arguments for the opinion are given. The only matter-of-fact argument which we can imagine, lies in the fear that the non-Indian institutions could at any time withdraw from the country, thus leaving India deprived of agencies for the financing of its foreign trade. We consider this fear to be without any foundation."—(Foreign " Experts " Report, page 7.)

‡ " By this absorption," said Mr. Beaumont-Pease in 1924, " Lloyds Bank for the first time in its history, becomes directly interested in places outside Great Britain.........There are prospects of interesting profit and of opportunities for giving unusual facilities for those interested in trade between England and these countries which I hope may be realized."—(Baster, p. 234.)

Managing Governor of the Imperial Bank of India, before the Royal Commission on Currency in 1925, that the field was very profitable.

" *Chairman:* Could you amplify that a little by telling us which of these constitutes a real practical limitation upon what would be the ordinary current business of an unrestricted bank and to what extent it imposes a real practical limitation of such business?

Mr. Norman Murray (Joint Managing Governor of Imperial Bank): To begin with, the restriction on exchange business debars us from what is a very profitable business. Outside that the restrictions do not put us to any very great difficulty."*

Every one, except the representatives of the 'Exchange' Banks, have admitted that the field is profitable, and about them it must be said that "Mylady protesteth too much."† In view of this, what guidance can be secured from the following remarks of the Chairman of the Mercantile Bank of India in 1929?

"I attribute this reduction in profits chiefly to the suicidal competition that continues between Exchange Banks in India. I referred to this competition last year and said that, after taking into account brokerage and heavy expenses, the margin of profits on our exchange operations was disappearing; and I regret to say that, as the result of the past year, I can see no improvement in the position which is such that, but for our local business, we would lose very little by declining to do any exchange business."

The only interpretation, that could be put, is that, so far as the British banks are concerned, where there were four, there are now eight, and powerful foreign interests have also grown up, so that the individual scale of profit, known in olden days, so far as the foreign exchange business is concerned, cannot now be realised. But, is it suggested for a moment that the total profits of all banks from this class of banking are not high?

155. That there is more money to be made by penetrating inland, and getting hold of as much internal banking business as possible,

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* Question 9549, Royal Commission on Currency, 1925.

† Mr. Baster, the famous writer on "Imperial Banks", says:—

"The finance of Indian external trade, which is more profitable and less risky, is, of course, adequately, if not excessively cared for already by the quite specialised group of 'exchange' banks, of which British representatives again are most numerous. But it is significant that all the exchange banks are capitalised from and dependent upon external monetary centres, so that the control of these institutions by a local central bank raises some difficult problems. Every bank of importance in the Dominions has an office in London, and, what is noteworthy from the point of view of British financial consolidation, the banking business of the entire empire is monopolised by London banks. It explains the desire in South Africa for a really 'National' bank. Important sections of local opinion feel somewhat uneasily that to have nearly the whole of the Union's banking transaction by only two large institutions controlled from the other side of the world is an anomalous position. The Canadian and New Zealand farmers have long had the idea that a bank in their countries, modelled on the Commonwealth Bank, would solve all their troubles."

appears to be the dominant feeling in the minds, at all events, of the English banks. This factor alone can explain the threatened invasion of India by one of the Big Five, which was responsible for bringing about the amalgamation of the Presidency Banks.* This is authoritatively brought out in the circular to the shareholders of the Bank of Bombay under the signature of Sir Robert Aitken, dated 1st of December 1919. It says:—

"The history of the banking world for some years past, particularly in England and, to some extent, in India, spells amalgamation, which is synonymous with strength. It has been borne upon your Directorate that there is every probability that powerful banking interests in England, represented by the large London Joint Stock Banks, may at an early date obtain control of certain Indian banking interests, more particularly those of certain Indian Exchange Banks, and to combat this and to retain their prominent position it becomes absolutely necessary that the three Presidency Banks should consolidate by amalgamation". The unwritten history of banking in India would disclose that there were also active negotiations for the acquisition of the Alliance Bank of Simla by powerful British interests. It would explain the actual entry into India of Lloyds, who bought out Cox's & King's, but, who are not content to act merely as army bankers and tourist agencies, as the old institutions did. The Lloyds Bank have taken their Indian business very seriously. I am credibly informed by men, who ought to know, that they are offering most serious competition to the Imperial Bank of India and other banks in some places. The feeling, that there is money to be made in India in the banking field, must also explain the controlling interest acquired in Grindlay & Co., by the National Provincial Bank, another of the Big Five in the United Kingdom. The importance of internal business in the minds of London bankers was illustrated, when the P. & O. Bank acquired the Allahabad Bank,† and

* "The integration movement amongst British and Colonial banks can be divided into several parts. Amalgamations amongst the Colonial banks proper need not be considered from the present point of view, except to notice that in some cases they were defensive measures adopted to resist 'foreign' incursions. The attempted combination in South Africa after the advent of the London and South African Bank and the Standard Bank in the 'sixties' and the amalgamation of the Presidency banks on the threatened entry of more foreign capital, were clearly of this character."—(Baster, "The Imperial Banks", pages 220-221.)

"It is generally understood that the original scheme of Lloyds involved the establishment of close connections with one of the Indian and one of the Colonial Banks, but that portion of the scheme appears either to have been dropped or to have been vetoed by the authorities. So far as can be gathered, however, the restraint has come not so much from the Committee of the Treasury as from quarters directly connected with the countries in which the banks concerned conduct their operations."—Banker's Magazine, August, 1918.)

† "At the same time, as regards the P. and O. Bank itself, it is tempting to inquire why the Chartered Bank ever supported this institution, if it lost valuable business connections through it, particularly as the new concern was floated at the peak of the boom and in consequence was not strikingly successful."—("The Imperial Banks" by Baster, page 232.)

when the Chartered Bank, in its turn, acquired them both, bringing under a single combination, combined capital and reserve of £10½ millions!

156. The lure of India has equally attracted in the field some of the other giants in the banking world. The International Banking Corporation and the American Express Company have respectively been absorbed by the National City Bank of New York and the Chase National Bank of the City of New York, two of the biggest banking institutions in United States of America, the land of large size enterprises. The two Dutch banks also represent powerful foreign interests. The Japanese system of penetration, in which trade and finance frankly go hand in hand, accounts for the presence in India not only of the great Yokohama Specie Bank, but of two more. The Hongkong Bank, though founded in the colony of Hongkong, enjoys in India prestige and position, which are the despair of any Indian bank. Other countries represented in the field are France, through, the Comptoir National D'Escompte de Paris, and Portugal, through Banco Nacional Ultra Marino. The Editor of the "Indian Finance" raised a pertinent question as to the countries, with whom India has considerable dealings, who are not still represented. It was pointed out, that the total trade with Germany was over Rs. 45 crores, with Belgium about Rs. 20 crores, and with Italy about Rs. 20 crores. Who knows, whether these countries have not got up a programme for coming in to share the spoil? With regard to Germany, I was reliably informed by a friend that, owing to some kind of working agreement with some of the interests already represented in the Indian banking field, the D class banks in Germany were not free to open in India but one of the others—the middle sized ones, may look in here any moment. Any one familiar with the methods of European business, would not question this fact, if it came from an authentic source. Facts of this kind, however, in the world of high finance, do not easily leak out. They could not be expected to be brought up voluntarily by parties concerned before an Enquiry Committee, from whose report some apprehension with regard to interference with the existing conditions was entertained.*

157. The object of pointing out the strong position of foreign interests in this country is to show the difficulty, with which Indian interests would have to contend in the same field. It is to show very roughly the size of the institutions, which would have to come into existence, and how, even if they had the capital, they would lack the reserves as well as the prestige acquired by the older ones. It is to show, that the foreign institutions are not likely to countenance the entry of Indian institutions in the field, both of

* The Chairman of the Mercantile Bank of India at the last annual general meeting, said:—

"The report of this Central Committee is expected to be published shortly, and we await this with interest, hoping that, as the result of the report, no action of a political nature will be taken to interfere with the service the British Exchange Banks have rendered to the trade of India for more than half a century."

foreign exchange and of internal banking, where they have established themselves, without giving a fight. It may be pointed out, that these institutions are not merely capable of combining, but are as a matter of fact used to working in concert through powerful associations. It cannot be expected, that some of them would deal with Indian rivals more considerately than they have dealt with a business rival in their own country. The method of amalgamation, and the extent of amalgamation by the Big Five, caused anxiety in the United Kingdom itself, and caused also embarrassment to Government. After a survey of the indigenous banking system, which is receding before the attack of new conditions, and of the Indian joint stock banks, which are struggling for existence, the contrast in the contemplation of these large powerful foreign interests is so marked, that no one can regard the present position in banking in India without grave anxiety.

158. *Relation of trade and banking.*—The volume and value of internal trade in relation to foreign trade was stated differently as fifteen to twenty-four times that of foreign trade. The opportunity, therefore, for profitable banking was there in the internal trade. The volume of foreign trade with different countries is as follows :—

Total of imports and exports for the year 1927-28.

	Rs. (in lakhs.)
United Kingdom	1,97,08
United States	56,41
Germany	47,57
Japan	46,91
Netherlands and its Colonies	31,48
France	20,27
Italy	19,63
Belgium	18,40
China (exclusive of Hongkong and Macao)	8,88
Switzerland	2,68
Others	1,19,69
Total	5,69,00

While the export is of items produced from Indian soil by Indian labour, and the import is of articles, the largest bulk of which is used for the consumption of the Indian population, it is unfortunate, that the actual handling is very largely in foreign hands.

A noteworthy feature with regard to the growth and the operation of foreign banks, is the parallel between India's trade with different countries and the banking interests of these countries located in India. The growth of foreign banks in India and the growth of their operation through penetration in the interior.

cannot be viewed with satisfaction as indicating progress of banking. In some quarters in India, it is usual to rejoice at the growth of trade, both in imports and exports, and to take this growth as a sign of improved prosperity. It may be the reverse, particularly, where articles are imported, which were hitherto manufactured and supplied locally, or where important items, like manure material, are exported, or raw material, which could be worked in the country and of the finished product, of which there is a demand. Increased imports may actually represent unemployment and displacement in economic life, beyond the capacity of the men so displaced to adjust themselves. Similarly, the growth in the operation of foreign banks in India is not the growth, over which there should be any rejoicing. It connotes, in the first instance, that the internal system of indigenous banking, which was serving the country, has broken down and that Indian institutions on modern plan are not ready to take their place, or do not find, that they can expand on account of heavy competition. In either case, the growth of foreign banking in India is a symptom of malaise, and not a symptom of robust health. It bodes no good to Indian economic interests, in so far as foreign banks have hitherto made it their business to help the nationals of their country in their trading operations. It would be found, if a research could take place, that during the same period, in which foreign banking in India has expanded, the trade in foreign hands has also increased.

159. *Indian share in India's foreign trade.*—It was already well known, that the Indian position in the matter of import and export trade was not advancing, and that Indian share was very small. It was through the enterprise of the Indian Chamber of Commerce, Calcutta, and their able Secretary, Mr. Gandhi, that a definite calculation was put forward, giving the figure at 15 per cent. of the total in Indian hands. The 'Exchange' Banks realised, that this was going to be fatal to their suave words to explain away a difficult situation. They promptly issued to our Committee a statement giving "*percentages* of India's foreign trade in terms of bills passed through the Exchange Banks during the years 1925 and 1929 respectively."! This statement, which was signed by the Chairman of the Exchange Banks Association, Calcutta, contains the illuminating remark "certified that the foregoing *percentages* have been compiled from figures confidentially submitted by the Exchange Banks concerned." When I pointed out, that it was not percentages, which were wanted, but absolute figures, the request for absolute figures was refused. It is not, that the absolute figures did not exist, since the percentages could only be calculated from them. On the propriety of their withholding relevant information, which is already in their possession, before a Committee appointed at the request of the Indian Legislature, I shall not say anything. I can only interpret the figures given by them on the basis, that there was some danger to their logic in refuting the conclusions of the Calcutta Indian Chamber of Commerce, if the absolute figures had been made available. The abso-

lute figures would have disclosed to what extent the import and export trade of India becomes a subject of bills passing through the 'Exchange' Banks. It is understood, that there are important firms, who keep their own books both ways and do not pass their transactions through the foreign banks. It is further understood, that there are English firms, on whose behalf the 'Exchange' and other banks do a considerable amount of acceptance business in London, and that the figures of bills that are discounted in London would not be included in these returns. It is further a commonplace, that there are many firms of foreign indentors and commission agents, who arrange the transaction and earn their profits, but who get the bills drawn in the name of their Indian constituents. These are only some of the considerations, which would vitiate an attempt to determine the share of Indians in import and export trade from an examination of bills alone, even if the absolute figure of bills were produced, unless the total of bills, either way, tallied approximately with the total value of trade. An attempt of the kind, which the 'Exchange' Banks have made in dealing with the question by percentages, is absolutely misleading, and I am sorry, that my colleagues on the Committee did not insist on their absolute figures being brought out. They did not regard the refusal for giving information as a lack of courtesy to the Committee, or the method of arguing from percentages as faulty.

The development of India's resources, of India's trade, and of India's banking, in the form in which it has taken place, cannot give satisfaction, as the control and direction of such development are not in Indian hands. The advantages from such development do not come to India. If, instead of importers and exporters coming and settling in India, and dealing direct with the consumer, on the one hand, and the producer on the other, or as near these classes as they can, Indian trading firms had established themselves abroad for the sale of India's produce and for the importation of what India actually needs from the manufacturers of other countries, if, instead of foreign banks establishing themselves in India and penetrating far inland, Indian banks had established themselves in foreign countries in sufficient strength for rendering service to Indian clientele, the result would have been one, which would have secured for India not only profit, but a position of pride.

160. The process in India has been definitely the reverse. Nothing is more marked in the organization of foreign trade in India, since the beginning of the twentieth century, than the elimination of the Indian middleman. Foreign manufacturers have opened offices in India, or, have pooled their resources for creating powerful agents, or sent out an ever-increasing army of canvassers and commercial travellers. This machinery is reaching farther inland. It would be wrong to say, that this involves an economic gain from the abolition of the middleman, who was engaged in this work before, since the charges payable in respect of that service have still to be paid, and to be paid to the foreigner. Contrariwise, in the export trade, Indians have been dislodged not merely

from the position of shippers at the main ports, but from the position of middlemen, engaged in collecting commodity in the interior and moving it into the ports and central markets. It would be a fallacy to suppose, that this is done on a basis, which brings in more money to the Indian producer. On the contrary, as indicated already, a large number of Indian traders engaged in this work being eliminated, the factors, which led to competition and to the producer getting a competitive price, have weakened. The profits, again, have been diverted from Indian into foreign pockets. The volume of import and export trade has increased both in quantity and in value, since the beginning of the century, but the part, which the Indian plays in it, has continued to become less dignified and less profitable. The financing of this trade takes place by means of deposits in foreign banks, representing the savings of the people of India, and India suffers a double injury by the loss, both of trading profits and of banking profits, under a system, which has come to be established. The Indian demand for serious change in this system is being strenuously resisted by the foreign interests concerned, and in this resistance the remarkable unanimity of all foreign witnesses before our Committee could not but be noted.

161. *Disposition of available finance for trade.*—Demoralisation in thought in India on economic issues seems to have gone very far. Otherwise, one cannot conceive, how an Indian writer could come to note the growth of Indian deposits in foreign banks as a sign of strength for future economic life, in so far as it is proved, that the Indian money is now sufficient for the finance of foreign trade in India, without the assistance of periodical funds, which were brought forth from England.

The idea, that the foreign banks are bringing cheap money into India for the finance of Indian trade is an exploded myth. From official documents quoted in Chapter XI, it will be noticed, that it was seriously doubted as early as 1900. It has never been subsequently emphasised by any one and has been completely disclaimed by Mr. Beaumont-Pease, Chairman of the Lloyds Bank. The misconception in India is two-fold. One is the belief. that the import and export trade of India, its foreign trade, should be financed by India. The import of India is the export of some other country and *vice versâ*, and the foreign trade of India is equally the foreign trade of some other country. The financing has, therefore, got to be done not completely with India's resources. The use of a country's resources in the direction and control of another country, with which it is trading, is not likely to lead to a favourable bargain for its nationals in the matter of trade as well as banking. Such an argument ignores the essential principles of national economy. If these principles are acknowledged at all, the handling of one country's resources by another is pernicious and inflicts a perpetual loss and humiliation. If, on the other hand, these considerations do not weigh with a man, then the idea, that India has become free from the use of foreign capital and,

therefore, self-sufficient is ridiculous. Why should India be free from foreign capital now, and what does it matter, if profits from India flow abroad and enrich the economic life of other countries, who build up their industries and other activities? After all, the products of those industries reach back to India, and the Indian consumer thus vicariously enjoys the fruits of what emanate from his own exertions!

India is a country, in which money for safe custody in the hands of the foreigners, is cheap. It is cheaper than in many other countries. Side by side with this fact, must be noted the fact that capital is scarce, that it is considered shy, that it is dear, that usury exists, that laws have had to be made in restraint of the lender, that the Kabuli is doing a flourishing trade, that, industrial venture of a suitable character does not find sufficient or timely accommodation, that there are periods of great stringency in the money market, and that the average bank rate is higher than that in many other countries.

162. To an economist, these factors go to indicate a very alarming situation. They at once raise a problem, and they point to the need for a searching enquiry. Economic life, when it works in such separate compartments with such an imperfect mobility of loanable capital, cannot be regarded as properly organized. One class receives accommodation on much more favourable terms than other classes. The class, which is perhaps in great need, is the most helpless. The banks, which cater for the few, *viz.*, the foreign banks, work under advantageous conditions. Those, to whom the large mass of the population look up for accommodation, work under least favourable conditions. The problem is not merely therefore of greater co-ordination between the various agencies, but it is of completing the economic cycle. The savings of India ought to be collected out of the hands of those, who save, in safe channels, and made available again, with due safeguards, to those, who need the money.

The nature of the business, which involves the credit cycle, has to be examined. Banking, which merely lends out money on proper security, is no better than pawnbroking. Credit means the capacity for payment, involving also the willingness to pay back, or ample means for enforcing payment. The credit instruments, with which the work of commerce is carried on in the world, are in essence the link between the producer and the consumer. Goods, that are destined for consumption in India, when the consumer has got an effective demand, *i.e.*, money to pay, could be handled by all intermediaries, without the handling of any money, by credit, *i.e.*, on the basis, that at last the payment will be forthcoming in due course. In India, foreign trade looms large on the one hand. Cash transactions are considerable on the other, and India's old claim of self-sufficiency, though considerably broken down with regard to the village unit, still survives in many important respects. Even where there are movements for goods for internal consumption, the process of orderly marketing is not there.

The numerous parties concerned are not in sufficient co-ordination, and what is worst, the chief link with the final consumer is the small man. Any assurance by the small man, that in due course the payment would be forthcoming, is not of any value to the larger man, who collects produce, or manufactures and distributes it. The cycle cannot be, therefore, completed. There are missing links in the credit chain and India suffers therefrom. As if this weakness were not enough, there is further the interposition of powerful and dominant foreign interests, who distort all notion of foreign trade, by picking up the produce at the stage of primary production and attempt to bring foreign manufactures practically at the door of the consumer. They have thus driven a powerful and impenetrable wedge in the economic life of the country and created a situation, in which orderly development, both of trade and banking, in the best interests of the country is not possible.

163. *Working of foreign banks examined from some statistics.*—For the following information the Committee is indebted to the Association of Foreign Banks in India:—

The following consolidated return represents approximately the position as regards operations in India, of principal non-British Exchange Banks, at 31st December 1929:—

(All figures are in Lakhs of rupees.)

Deposits in India.

	Current Accounts and Money payable at Call.	Fixed and short Deposits.	Total.	Percentage.
Non-Indian	187	282	469	55·5
Indian	195	181	376	44·5
Total	382	463	845	100

Advances in India.

Loans, Cash Credits, Overdrafts and Local Bills Discounted (excluding Bills of Exchange).

Non-Indian	429	47·4
Indian	477	52·6
Total	906	100

Investments in Government and other Indian Trustee Securities and Indian Treasury Bills	172
Bills of Exchange—	
Bills in transit to London and elsewhere overseas	3·36
Bills already discounted in the London Market whose proceeds await remittance to India.	30
Outstanding Loans and Overdrafts running from outside India.	5·95

The following consolidated return represents approximately t position, as regards operations in India, of eight principa British Exchange Banks, at 31st December 1929:—

(*All figures are in crores of rupees.*)

Deposits in India.

	Current Accounts and Money payable at Call.	Fixed and short Deposits.	Total.	Percentage.
Non-Indian	13·8	9·0	22·8	39·4
Indian	16·6	18·5	35·1	60·6
Total	30·4	27·5	57·9	100

Advances in India.

Loans, Cash Credits, Overdrafts and Local Bills Discounted (excluding Bills of Exchange, Investments in Government Securities, etc., and Balances with Imperial and other Banks).

		Percentage.
Non-Indian	10·5	28·6
Indian	26·2	71·4
Total	36·7	100
Investments in Government and other Indian Securities and Indian Treasury Bills.		24·6
Bills of Exchange—		
Bills in transit to London		6·4
Bills already discounted in the London Market whose proceeds await remittance to India.		...
Outstanding Loans and Overdrafts running from outside India.		16·1

The above two statements, it may be noted, constitute the sum total of the information with regard to the operations of foreign banks in India made available to the Committee, over and above what is published in the Government publication, known as "Banks in India". The statements are unsatisfactory in many directions. They give the position as on the 31st of December 1929, one date of the year and in the middle of the busy season. If the statement was not specially prepared for the Banking Committee, then it might have been given for several years prior, even if it were for 31st December. If it was specially prepared, it was a grave omission that the statement was not given for more than one date in the year,—an omission, which I regard as more serious, because the attention to it was drawn by me early in the examination of the Committee. More than one date were wanted for eliminating the question of seasonal movements, the importance of which in the money market in India and in the operations of the 'Exchange' Banks in particular, has been always emphasised. In a statement, which refers to one date only, and which is prepared with the object of disarming the general criticism, that foreign banks were financing their own nationals with Indian money, one does not know to what extent the process of window-dressing, not at

all unusual everywhere in the case of banks, has been followed. The value of the statement is, further detracted by the use of the words "approximately" and "principal" in the headings, leaving, therefore, room for some doubt as to the final figures. The statement regarding non-British banks does not even say, how many banks are included! I do not know, whether the word "Indian" is used in the sense of the natural-born Indian, or domiciled Indian, which includes European, or Statutory Indian. Nor is it clear, whether companies registered in India, the controlling interest in which is in the hands of foreigners, or the management of which is in the hands of the foreigners, are put under the heading "Indian" or "non-Indian".

164. The statement of the eight principal British banks shows, that on that one date, advances and investments in India exceeded deposits in India by Rs. 3·4 crores. With regard to the outstanding loans and overdrafts coming from outside India, amounting to Rs. 16·1 crores, it is not clear, whether these loans and overdrafts were used in India for Indian purposes, or, whether they constituted a part of the general operations of the banks all over the east. Unless one can suppose, that there were special circumstances in 1929, or special causes referring to the dates selected for the purposes of this statement, we would find it difficult to reconcile it with a clear statement of Mr. Beaumont-Pease, the Chairman of the Lloyds Bank, to the effect that, "The total of deposits received in that country largely exceeds the amount of our advances and no portion of our deposits at home is used for the purpose of making loans in India."

It would be unfortunate, that after an enquiry like ours, which can only be set up at long intervals, the main question, whether the foreign banks bring in capital to this country permanently, or for short periods, or whether they do not use permanently or for short period, capital collected in this country for outside places such as Ceylon, Singapore, Java and Far East, cannot be answered. It cannot be answered on the basis of any actual statistics available.

165. One does not know, what reliance is to be put with regard to the words "cash credits and overdrafts" used under advances. Do they mean actual money advanced, or do they mean the amount of credit authorised as on these dates? Nor can one find from the statement supplied, in how many cases the cash credits and overdrafts to Indians were definitely secured by tangible collateral, and in how many cases, in the case of the advances to foreign firms, the cash credits and overdrafts were clean advances. There is a peculiar form of cash credit by foreign banks for the purpose of enabling large firms to buy produce in the interior. In most cases, there is no security taken against these cash credits. There is a promissory note, and sometimes there is a bond.* It was admitted by the representatives of the 'Exchange' Banks, that the security does not exist at the time, when the cash credit is opened.

* The witnesses representing 'Exchange' Banks promised to send a copy of the bonds used. As it was not circulated, I presumed it was never received. But a copy was sent to me after the report was in print.

The authority to the parties to draw money is absolute, and it is only when they send in particulars of purchases made by them, when the commodities are in transit, or, are being dealt with, prior to their arrival at the principal market and prior to their shipment abroad, that the security is created against the moneys, already drawn out, long before the bank receives such particulars. This is undoubtedly a form of highly developed credit and from that point of view, there would be much in it to commend, but the unfortunate position is that the benefit of this system is derived very largely by foreign firms. The convenience offered and the cheapness going to foreign firms, make it difficult for Indian firms, who cannot avail themselves of it to the same extent, to compete.

The statement submitted does not indicate the amount of local bills discounted in contrast with cash credits and overdrafts, and it does not therefore enable constructive suggestions to be made with regard to the creation of a bill market in India.

166. The composite statement further omits all reference to the amount of overdrafts, which some of these institutions are enjoying from the Imperial Bank, and it omits the figures of cash, which they hold against their liabilities. Had the figures of cash been given even for the British and non-British groups, it would have disclosed valuable information with regard to their operations: Lumping of cash figures for several institutions together has very little value. It certainly conceals the weakness of one or more of those institutions and prevents public opinion being brought to bear on the subject. The following statement of the cash held by foreign banks as a whole against their deposit liability as a whole, would be of interest:—

Year.		No. of Banks.		Deposits in India. (Rs. 1,000)		Cash Balances in India. (Rs. 1,000)
1870		3		52,31		61,13
1880		4		3,39,88		1,80,09
1890		5		7,53,60		3,50,43
1900		8		10,50,35		2,39,58
1910		11		24,79,17		4,88,51
1913		12		31,03,54		5,18.24
1919		11		74,35,90		29,98,32
1920		15		74,80,71		25,17,53
1921		17		75,19,64		23,56,74
1922		18		73,38,44		16,77,63
1923	A. 5	18	51,29,78		9.78,23	
	B. 13		17,14,50		4,69,63	
				68,44,28		14,47,86
1924	A. 5	18	48,93,45		9,71,18	
	B. 13		21,70,03		6,65,51	
				70,63,48		16,36,69
1925	A. 5	18	50,57,43		6;49,72	
	B. 13		19,97,14		2,91,89	
				70,54,57		9,41,61
1926	A. 5	18	51,07,24		7,32,99	
	B. 12		20,46 98		3,39,85	
				71,54,22		10,72,84
1927	A. 6	18	49,23,33		5,40,14	
	B. 12		19,62,90		2,72,99	
				68,86,23		8,13,13

The proportion of cash to liabilities in India gives the following percentages:—

	Exchange Banks:— 1. Banks doing a considerable portion of their business in India.	2. Banks, which are merely agencies of large banking corporations, doing a major portion of their business abroad.
	Per cent.	Per cent.
1870	117	...
1880	53	...
1890	46	...
1900	23	...
1910	16	21
1913	19	17
1919	35	67
1920	30	58
1921	28	43
1922	19	33
1923	19	27
1924	20	31
1925	13	15
1926	14	17
1927	11	14

It will be noticed that the proportion has been consistently brought down. Even before the war, it was an object of serious comment, and the methods of operation of these foreign banks in India are obviously not calculated to strengthen the Indian banking system. No consistent account exists of the effect on the Indian money market of this policy on behalf of the foreign banks. But it is known, that they experienced acute difficulty at the beginning of the war and had to be helped. They have not the excuse for keeping lower cash, that, by doing so, their profits would be reduced, since their profits are already very high. We are told, that they have investments in Government securities and have holdings in Treasury Bills. The total figure alone is available for that particular date only, *viz.*, 31st of December 1929. Of no other date, is there any figure available in published information, and it is difficult therefore, to draw any general conclusion modifying that, which is justified by the very low percentage of cash, which they keep in this country, *viz.*, that they are a source of weakness to the Indian money market and are working on the basis of perilously low cash.

167. The statements given have lumped together the operations of the several banks. The appointment of the Banking Committee in this country did not come off suddenly, but was indicated in discussions, which took place many years ago. There was a resolution in the Imperial Legislative Council by the Hon'ble Mr. (now Sir) B. N. Sarma in 1919. Thereafter, reference to it occurs in

several public documents and pronouncements. It became the subject matter of correspondence between the Government of India and the various Chambers of Commerce, in which these banks are by no means inactive members. Even after the Committee was appointed on 22nd June 1929, the managers of these banks in India had ample time to consult with their Home authorities and keep ready with full particulars of their activities in India. I decline to believe, that they had not foreseen the possibility of being called upon to produce this information. I raised this issue at the earliest moment, when the taking of evidence by the Central Committee began, and I was assured that the information would be forthcoming.

The fact remains that the figures have not been supplied separately for each bank. Nor have they supplied even the consolidated figures in such detail as are usual, as, for example, the figures in the statement of the operations of the Imperial Bank of India. The result is, that those members of the Committee, —and amongst these, a very large number must be included,—who have felt the need for the establishment of an Indian controlled institution for dealing in foreign exchange, are working absolutely in the dark. The size and scale of such a bank and the various classes of operations, which it would have to indulge in, remain a mystery. I am not very clear, why this mystery should have remained. In what way the interests of the foreign banks would be prejudiced by furnishing information, the demand for which they have resisted, I cannot see. But, assuming that their 'Home' authorities are wide awake and shrewd businessmen, I cannot help thinking, that there must be an object behind this, and that object could not be one of helping India or her interests.

168. *Extent to which foreign banks engage in financing internal trade.*—Even the consolidated statement has brought out in an unmistakable manner one point, *viz.*, that the operations of these banks are not confined to the financing of foreign trade, and that the capital collected by them in India is very far in excess of what would be required, if they confined themselves merely to the function of foreign exchange. The figures of their advances, it will be noticed, are, in the case of both British and non-British banks, exclusive of bills of exchange. The bills of exchange appear duly at the bottom under a separate heading, and collectively, for both groups, amount to about Rs. 11 crores, as against a total deposit taken in India of Rs. 66·35 crores. The balance of over Rs. 55 crores thus, in addition to such permanent fund, if any, which these institutions claim to have brought to India from their own capital and reserve, would constitute the working capital for internal banking. It is thus almost equal in amount to what the Imperial Bank of India on the one hand, or the Indian joint stock banks put together on the other hand, have for the same purpose. The fiction, that foreign banks in India are financing only foreign trade, has to be abandoned in the light of this. The idea, that the financing of foreign trade is their normal and legi-

timate function, is thus not correct. As already indicated, the exports and imports of India become the imports and exports of other countries, and what is India's foreign trade is in effect other country's foreign trade. The use of Indian money for financing foreign trade is, therefore, justified only to some extent.

169. *Definition of foreign trade.*—The difficulty arises because of the new definition of foreign trade, which the foreign banks seek to establish in this country, contrary to received notions, and in doing which, they secured the whole-hearted support of the foreign "experts". In the early stages of the discussion, the Committee unanimously, with the exception of Mr. Buckley, the representative of foreign banks, accepted the definition of foreign trade, as trade from the point, where shipping documents are taken out at a port of export, to the port of destination, and *vice versâ* from the originating port to the Indian port until the moment, when the goods are cleared. Foreign trade, thus defined, would be covered by bills of exchange, which could constitute the legitimate activity of a bank engaged in foreign exchange business. As already indicated in a previous section, an attempt is being made to collect the exportable produce in India from as near the primary producer as possible, and in the case of imported materials, to reach as near the primary consumer as possible. It can be said, that this is no longer an attempt, but an accomplished fact. To the extent to which it is accomplished, it may be said, that the internal trade of the country is being handled by the foreigners, but, since in the past it has been found possible to institute a lot of economic make-believe, which goes down, an attempt is now being made to define foreign trade so as to cover all the operations of the foreigners in this country. Such a definition would also make out as perfectly legitimate, the activities of the foreign banks in attempting the financing of the internal trade, which are in effect reprehensible, and which have been so recognised by a certain number of my colleagues with reference to their proposal to restrict internal banking to Indian institutions.

170. The 'Exchange' Banks gave evidence also collectively, *i.e.*, through one party, and we had no means of getting at facts from several sources to enable us to draw inferences, as in the case of Indian joint stock banks. Their representatives would not admit that they had expanded, not merely the number of the branches in the interior, but also the volume of activities of such branches as existed in the interior. The following questions and replies speak for themselves:—

Question No. 3132.—(Mr. Manu Subedar) Would you kindly tell us the total number of branches that are in the inland centres (*i.e.*, except at the main ports)?—I could not do it off hand.

Question No. 3133.—Could you tell us whether the actual turnover or business at these branches in the interior has of recent years increased?—It is smaller now than it was in the height of good trade.

Question No. 3134.—It would be smaller compared to the boom years, but taking the normal position, say before 1913, would it be smaller to-day or greater?—I am afraid I am not in a position to answer.

Question No. 3135.—Could you let us have the information later, say for the last five years?—The difficulty is that we are only concerned with the total volume of business of the members of our Association.

Question No. 3136.—(Chairman) We want to get at the volume of trade, more especially in the up country branches, for the five years ending 1913, and also for the five years ending 1929. We should also like to have the information in the form supplied by the Imperial Bank in regard to advances of all kinds.

Question No. 3137.—(Sir Purshotamdas Thakurdas) Could you get information for the foreign Exchange Banks?—We could get for the British Exchange Banks.

Question No. 3138.—(Mr. Buckley) I am very much afraid that Mr. Cook will never be able to collect this information, because no bank will tell anybody what its advances to any party amount to. I would suggest that the Director General of Statistics in Calcutta be asked to apply to the Exchange banks in London through the India Office for the information which would be supplied by them in London in a consolidated form.

Question No. 3139.—(Chairman) Then, Mr. Cook, you need not trouble, we have already taken action in this direction?—I might say that the same applies to the volume of trade up country; it would be exceedingly difficult for the banks upcountry to disclose any information.

Question No. 3140.—Does the same difficulty apply in the case of turnover?

Question No. 3141.—(Mr. Buckley) I should have much pleasure in writing to the London Association and putting this point before them and trying to get some figures for the information of the Committee.

Question No. 3142.—(Chairman) In that case we shall not be able to get information about non-British banks?—I do not think that it would amount to very much.

Question No. 3143.—And there is no means by which we can get information from the non-British Exchange Banks in regard to their loans and overdrafts?

Question No. 3144.—(Sir Purshotamdas Thakurdas) The Dutch bank has only opened during the last five years?—I am afraid I could not tell you.

Question No. 3145.—They have no branches up country?—No.

Question No. 3146.—(Mr. Buckley) The figures the India Office have already been asked to collect are on the lines of the figures supplied by the Imperial Bank and they relate to the whole of India.

The turnover can be collected in London and given in the form of a percentage which I think is all that the Committee would ask for.

Question No. 3147.—(Mr. Manu Subedar) I should like to have the absolute figure also. Supposing they told us that during the last five years the increase was 60 per cent. that would be no indication. I should like to know whether it was 5 crores or 10 crores increase.

Question No. 3148.—(Chairman) This is not a matter which we need discuss with Messrs. Cook and Ingram. We shall have to consider it among ourselves before we decide about the precise information we want to collect.

I regret that no steps were taken to secure the information, which never came before the Committee, either from the witnesses, or from the representative of ' Exchange ' Banks, or through correspondence between the Committee and their London Offices, or the India Office and the Finance Department and the head offices of these institutions. It was not from any lack of reminder from me later, that the information did not come.

171. The above discussion took place at the time of the examination of the representatives of the foreign banks on the 1st September 1930. In the light of this, Sir George Schuster's reply to Mr. B. Das to a question in the Assembly on the 23rd of February, 1931, offers an illuminating commentary.

Mr. B. Das: Will Government be pleased to state:

(*a*) whether requests have been made by the Central Banking Enquiry Committee or any member thereof for information as to the operations of the foreign Exchange Banks in India;

(*b*) whether such requests have been fully complied with;

(*c*) if not, whether the Finance Department propose to secure the information necessary for determining the position and activities of these foreign institutions relative to Indian banking constitutions?

The Honourable Sir George Schuster: (*a*) and (*b*). So far as the British Exchange Banks are concerned, all the figures required by the Banking Committee have already been supplied. The non-British Exchange Banks were requested to supply the information either to the Secretary to the Committee or to the Secretary to the Government of India in the Finance Department. The figures have been received from six out of the nine non-British Exchange Banks addressed. Of the remaining three, one has sent the figures to the India Office, and it is believed that the other two have also followed a similar procedure.

(*c*) Does not arise.

172. In the absence of such information, one has to draw the unavoidable inference and to strengthen it from the expression of responsible opinion in other quarters.

The Bengal Provincial Committee in paragraph 50 expressed the following views:—

" *Exchange Banks have been compelled to take up new lines of business, which were formerly in the hands of Indian joint stock banks alone.* Advances against hessian delivery orders have been already referred to, in the previous section. Discounting of inland bills or hundis was also in vogue among the Exchange banks in Calcutta before the present trade depression. It is true this business is declining at present, but that is not wholly due to the disinclination on the part of Exchange banks to encroach upon the province of Indian joint stock banks ".

The Bombay Provincial Committee in paragraph 37 expressed the following views:—

" The Indian branches of these foreign banks *do every type of banking business* in addition to the business of financing the import and export trade of India. They receive deposits from the public in India and *try to secure as much of the country's capital resources as they can obtain.* While the Imperial Bank does not allow interest on current accounts, the exchange banks generally allow 2 per cent. on balances exceeding a minimum limit. It is a matter of *general complaint* that the resources thus tapped are used mostly for financing the foreign trade of the country, which is largely in the hands of foreign merchants, and that *in times of monetary stringency abroad they remit money out of India to take advantage of high market rates in other places.*"

The authority of the Chairman of the Mercantile Bank of India Ltd., must, however, be considered unimpeachable on this point.

" I attribute this reduction in profits chiefly to the suicidal competition that continues between Exchange Banks in India. I referred to this competition last year and said that after taking into account brokerage and heavy expenses, the margin of profits on our exchange operations was disappearing; and I regret to say that, as the result of the past year, I can see no improvement in the position which is such that, *but for our local business, we should lose very little by declining to do any exchange business.*"—(Speech at the annual general meeting in 1929).

CHAPTER XIII.

FOREIGN BANKS: COMPLAINTS AGAINST THEM.

173. *Share of foreign banks in creating opinion and policies hostile to Indian opinion and interests.*—The role, which the foreign banks play as a whole under the leadership and guidance of the British banks, and the light, in which this role appears in Indian eyes cannot be understood, without an examination of some of the events of the past and some circumstances relating to them in recent times. The 'exchange' banks are members of the British Chambers of Commerce in India. It is not enough to say that they have shared the outlook of their Chambers. This outlook on Indian aspirations generally, not merely in the field of political advance, but more particularly in the field of economic growth and financial and other assistance to trade and industry in Indian hands, has been considered hostile. It has been nothing unusual now, for more than a generation, to find, on fiscal matters and large public questions relating to financial policy, British commercial opinion ranged definitely and almost invariably against non-official Indian opinion. This hostility has been more particularly marked with regard to measures for securing safety and encouragement to Indian insurance and Indian shipping. That the British 'exchange' banks have had a hand in formulating some of this opinion, particularly on issues relating to the standard of value, currency, mint, the administration of paper currency, Government remittance, capital programme, Government borrowings for long and short period, appears to be the belief in Indian circles.

Such belief is undoubtedly strengthened by the fact that the British banks have regarded themselves as part of British commerce,* and the views of this section of British commerce have been expressed, in common with the views of British banks, in the deliberations of the English Chambers of Commerce and of the Associated Chambers of Commerce, in the Assembly and Council of State, and before public commissions of enquiry.†

174. The anti-Indian attitude, generally, of the 'exchange' banks has been illustrated by some reference given in Chapter XI from Government despatches and the views expressed by representatives of these banks and of British Chambers before public commissions. It may be, however, mentioned here in a summarised form. These banks have always acted in a selfish manner. They have looked to their own advantage‡ and they have not shared the com-

* The Chairman's speeches at the annual general meetings of these banks for many years past would clearly demonstrate this point.

† The Manager of a British 'exchange' bank represented the Bombay Chamber of Commerce before the Chamberlain Commission, and both the Bombay and the Bengal Chambers of Commerce before our Committee were accompanied by the Managers of a British 'exchange' bank.

‡ In recent difficulties of Government in the maintenance of exchange, heavy inducement had to be given to the 'exchange' banks to retain

mon life and sentiment, or the general considerations affecting the prosperity of this country, or even the convenience of the Government of India. Indian opinion believes, that their hostility was due to jealousy and selfish purposes. Their attitude has been considered unsatisfactory from the point of view of India and the larger considerations of Indian national advantage, and some indication of that attitude may be had with regard to the few points enumerated hereunder:—

(1) The closing of the mint.

(2) Opening of London offices, taking of deposits in London and engaging in foreign exchange business by the Presidency Banks, and, later, by the Imperial Bank.

(3) The manner and volume of sale of Council Bills. They wanted more Councils to be sold even when the money was not needed in London, to save them the trouble of bringing in gold,* and they wanted the Secretary of State, in selling Councils, to confine such sales only to 'exchange' banks. They wanted him to follow the market, *i.e.*, the 'exchange' banks, in spite of the notorious fact, that they were working in an association, that could manipulate the rate to the disadvantage of the Secretary of State.

(4) The admission of the Tata Industrial Bank on the list of those eligible for the purchase of the Council Bills.

(5) The establishment of a gold standard in India and of gold currency, and the opening of the mint to the free coinage of gold.

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their funds in India, or to get additional funds from London. I very much doubt whether Government have secured a fully competitive rate with regard to their Treasury Bill operations and whether they have not been the victim of any concerted action by the foreign banks. The exchange necessity was, however, supreme. "The reactions and repercussions of the Treasury's operations have been, only too frequently, adverse and opposed to bankers' plans and programmes. This has been responsible for much bitterness in banking circles."—("Indian Finance", March 14, 1931.) I have, however, not seen any suggestion in any quarter, that the foreign banks stood in any way by the Government of this country in their difficulties.

*"An Indian Correspondent" wrote in the "London Times" in November, 1912, as follows:—

"It means that many millions sterling of Indian money have been improperly withdrawn from India. They represent sums extracted from the taxpayer in excess of the requirements of the State: capital withdrawn from India for use in London and there used, not in pursuit of Indian interests but for the convenience of joint-stock banks trading on inadequate gold reserves. . . There is therefore no justification for the sale of a single bill by the Secretary of State beyond the actual amount which he needs to discharge his obligations in London. But these excessive sales of bills are a convenience to the exchange banks which have to remit funds to India and it is often cheaper for them to buy bills than move bullion. They also afford a means of obstructing the natural flow of gold to India, and in this way allay the terrors of those joint-stock banks who realise the inadequacy of the London gold reserves and are not averse to protecting them at the expense of the Indian taxpayer."—(Quoted by Prof. Kale in his "Indian Economics", Vol. II, page 606.)

(6) The establishment of a central bank as bankers' bank, the ownership by the state of such a bank and the grant of unrestricted power to such bank on the approved model of central banks established in other countries.

(7) They were opposed to measures, which would lead to any other agency importing money from London, or other financial centre, or to a reduction of money rates in India, particularly during the busy export season, "which would enable the native to hang on to his produce."*

It was also evident with regard to the elimination of British company management for railways.

175. That the British 'exchange' banks exercised considerable influence in the counsels of the Government of India and of the Secretary of State cannot be gainsaid. In matters affecting them, they invariably secured their object. There are many instances, where their opposition succeeded,† and I know of none, where their opposition failed. Their association with Government arose both directly and indirectly. Several retired Government officials graced the Home boards of these 'exchange' banks, and through the Financial Committee of the India Council, on whose advice the Secretary of State generally acted, they must have had a means of having their opinion successfully pressed.‡

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* Reply of the representatives of the 'exchange' banks to Question No. 2856 of the Chamberlain Commission.

†Refer Chapter XI.

‡"Mr. Norton said in the course of the first Budget debate in the newly-born Assembly,—more is the pity,—about the failure to adopt competitive tender as follows:—

'Why not? Did they not know or knowing, will they not answer? I cannot entertain for one moment the suggestion that the Government have not got the answer. The only horrible inference is that they have it and will not reveal it. I think we are entitled to apply to the Hon'ble the Finance Member from his failure to produce, the legal presumption most hostile to himself. It is quite clear to me, and I hope it will be equally clear to the House that the reason why the Finance Member was unable to answer that particular question with regard to the policy of his Government in the matter of Reverse Councils was because he did not wish to implicate persons who are not here and who do not desire to be here.

'And if it be true,—I am afraid that it is,—if it be true that the real impelling and controlling influence with regard to this matter and other financial matters are to be found in England and not in India, then I think the House would like very much to know who is the Rasputin behind our Financial Czar, to which I would add the supplementary question, where is he living, in Delhi or in London? Is it in India where we can control him or is he at Home outside our jurisdiction?

'These financial considerations are brought forward. not as they should be, solely for the benefit of the people of India, but under alien guidance for the benefit and prosperity of men who have long exploited India for their own ends and who intend to prolong that process without interruption in the future.' "—("Reverse Councils and other 'Organized Plunders'" by T. S. Krishnamurthi Iyer, pages 449-450.)

Government of India considered them very important interests and dealt with their representations in this spirit. Permanent officials of the India Office have advocated their cause, even when such advocacy led them to disregard of public advantage.* The Reserve Bank Bill introduced by the Government of India contained provisions preventing the Reserve Bank taking deposits or doing service to those member banks, who have no offices abroad,—provisions conceived entirely in the interests of the 'exchange' banks.†

176. The 'exchange' banks, which had to be helped in India at the commencement of the war, were able later to extract a guarantee

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* *Question No. 11231.*—I think that is dealt with more at length in your next Memorandum, is it not?

Mr. Cecil H. Kisch.—That may be so.

Question No. 11232.—I suppose that any possible difficulty in peculiar Indian conditions in maintaining the functions of the Bank in this respect might be removed were the Bank to be a true Reserve Bank such as contemplated and not at the same time engaged in commercial business?

Mr. Kisch.—Yes. I think that is so. No doubt the terms on which the bank was constituted would prescribe that their exchange operations should rather be with banks than with the public.

Question No. 11233.—The exchange operations of the true reserve bank?

Mr. Kisch.—That they would buy sterling from the exchange banks and sell sterling to the exchange banks, and the Central Bank itself would not deal with individuals. As I understand, it was to be a banker's bank. It would rediscount sterling bills, but I take it that its operations would not be between itself and private individuals, but with the banks.

Question No. 11234.—Do you suggest any limitations in that regard which do not apply, for instance, to the proceedings of the Bank of England as regards exchange operations with a foreign country?

Mr. Kisch.—I think the Bank of England is in rather an exceptional position. I do not know how far the Bank of England on its own account deals in foreign currencies. No doubt it is buying dollars on behalf of the Government or through agents on behalf of the British Government. I do not know how far the Bank of England holds bills expressed in foreign currency on its own account. I should be very glad to know if you would enlighten me on that point.

Question No. 11235.—That is rather a question of evidence from those who are in direct contact with exchange business, and can speak on behalf of the Central Banks as to what, if any, limitations were possible consistent with the conduct by the Central Bank of this essential business?

Mr. Kisch.—My only point really was that these exchange operations should mainly be with other banks selling sterling or buying sterling to and from them, and rediscounting bills, but it should not itself deal with individual members of the public or individual institutions.

Question No. 11236.—In other words, that it should not conduct the general business of an exchange bank; that it should only conduct exchange business for the discharge of the functions of a Central Bank?

Mr. Kisch.—That is a broad conception that I think ought to be laid down in the Statute or Charter governing the bank. (Oral evidence before the Royal Commission on Indian Currency and Finance, 1925-26.)

†Refer Chapter XVII dealing with the Reserve Bank.

from the Government.* During the Reserve Councils loot, it was the 'exchange' banks, that shared in the spoils.** They have demonstrated more than once, that they are business concerns pure and simple, and whenever they could, they have taken advantage out of every embarrassment of the Government of this country. The latest example is the excessive inducement, which the Finance Member has been compelled to offer to them in the rates for Treasury Bills. In spite of these direct and indirect gains, in several public enquiries, they have acted cavalierly towards Government by not supplying definite information, even to public commissions and the impossibility of getting such information from them was reflected in the following questions and answers at the time of the Royal Commission on Currency, 1925-26.

" *Question No. 1651.*—(Chairman) There is only one other matter in which you may be of assistance to us. It will be useful sometime in our enquiry, in relation both to the exchange position

*" The Exchange Banks promised to give prominence to such exports and loyally carried out their undertaking. They were, of course, reimbursed for the losses due to their over-bought position by the Indian Government who allowed them to bring back funds to this country at rates at which they had been taken out. Council drafts were sold during 1917 only to the chief Exchange Banks and a few firms of special eminence on the Approved List who agreed to sell drafts at prescribed rates. The refusal of the Banks to buy bills without full cover caused great inconvenience to export merchants."—(Prof. Kale, " Indian Economics ", page 616, Vol. II.)

" Exchange Banks had not adequate funds to buy bills and had, for some time, to sell drafts at a fixed rate; and they were compensated for this by Government as far as their over-bought position resulted from the restriction imposed by the latter. The government's purchases of sterling drafts from the banks here saves the latter from the trouble to discount or realize the bills in London and then bring back the funds to India."—(Prof. Kale, " Indian Economics ", Vol. II, page 671.)

** " The above table gives rise to a multitude of thoughts, albeit disconnected. The Indians' share is only about £13 millions and if we exclude the portion of the Sassoons and the Presidency Banks, our share really comes to £11 millions or 1/5 of the total Reverse Council sales. It has been said that these sales were in response to trade remittances. If so, are the sons of the soil entitled only to one-fifth? How are the Exchange Banks including Cox & Co., entitled to get as much as £18½ millions, more than one-third of the amount sold, when they were not actual traders? Since there was considerable difference between the market rate and the Government's arbitrary rate, these Banks must have resold them at a huge profit, or for the 15 crores they paid to the £18 millions, they must have got Rs. 27 crores or cent. per cent. profit if they had retransferred the whole amount. A veritable gold mine indeed! all gold and no quartz. This is in addition to the gift made to them on some imaginary Council Bills to liquidate an imaginary over-bought position, referred to in the last chapter. It is also worth noting that on 12th February when one pound was sold for Rs. 6-14 as,—what a windfall,—Calcutta alone, that means mostly European remitters, got £3,472,000 or more than ⅔ of the sum sold on that date. Among other things, this shows how the wind blowed. We shall again ask how are non-Indians entitled to remit £44 millions at a profitable rate and thus inflict huge losses on the Indian Revenues or cause loss to the Indian people. The Government in India seems to exist for the benefit of everybody else but Indians. Even the Americans and Japanese got £10 or £12 millions as much as the Indians got."—(" Reverse Councils and other 'Organized Plunders'," by T. S. Krishnamurthi Iyer, pages 146-147.)

and in relation to the position of a possible central bank, to have a view of the position of the Indian banks as regards home and foreign liabilities. Can you tell us whether there are any returns published or any statistics available showing the relation of the Indian liabilities to the Indian assets of the Indian banks?

Mr. Denning.—I do not think there are any statistics, from which you could get that information.

Question No. 1652.—At any rate there is no statutory requirement to show a return?

Mr. Denning.—No.

Question No. 1653.—And do you not think there is any source of information on that subject?

Mr. Denning.—The only people you can get it from are the banks themselves. I do not think there is any other source, because I do not think they publish their assets and liabilities in various places separately."

177. With regard to the 'exchange' banks, the disability of Indian opinion has been dual, *viz.*, the difficulty of getting the ear of Government in this country, and the difficulty of securing a sympathetic consideration from the superior Government in London.* No more apt illustration could be found of the general description during the last two generations, than that the British official carried on his mind the responsibility for British trade, and British trade shared something of the anxieties of the British official. Brought up to a rigorous code of social ostracism of the Indian, the Government official and the banker had opportunities of fraternising in exclusive British clubs and during many all-white functions, thus sealing the mutual regard and confidence. This may have been unavoidable. It may be actually a matter of great credit for both. Its truth cannot be challenged. It is the manner, in which this has struck the Indian mind, which is of importance and which explains the psychology of the non-official Indian, and the readiness, with which he would credit complaints against the British 'exchange' banks in their anti-Indian attitude.

It would not have been necessary to emphasise the foreign character of these institutions and their anti-Indian activities, which are at the bottom of the feeling against them, which was

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*" Indian opinion is very closely interested in the conduct of Indian financial affairs in London, and particularly in the sterling borrowing policy together with the methods of floating loans. Subject always to the observance of principles of sound finance, it is desirable that the financial policy should be conducted in a spirit responsive to Indian opinion, and we should go so far as to recommend this, even if on occasion some slight sacrifice may have to be incurred. No system can work successfully if Indian opinion is strongly opposed to the policy of Government. . . . . But the success of such a relation depends on the realization of its limitations, and any attempt to control the details of India's financial policy from London must be regarded as an anachronism.—(Government of India's Despatch on Constitutional Reform, 1930, page 159.)

expressed by Indian witnesses, had it not been repeatedly urged by the foreign " experts ", that they were banks pure and simple, and should be viewed as such, and not from any other standpoint.* The successful share of these banks, in the formulation of public policies in the past, would show, that they have been more than banks, and they have been important contributories in the shaping and dissemination of public opinion, which has affected Government action and the economic life of the people of the country.

178. *Conditions under which foreign banks work.*—Before examining the specific inconvenience and complaints, arising out of the activities of the foreign banks in India, to the Indian mercantile community, or Indian institutions generally, it is necessary to indicate the conditions, under which foreign banks work in India at present. They establish themselves anywhere, without let or hindrance, and without any legal obligation upon them.†

The foreign banks have their head offices abroad and are registered under the law of their country with their capital expressed in currency other than Indian. Their shareholding is entirely in foreign hands‡ and the controlling interest in these institutions is alien. It follows, that their directorate is also non-Indian. The control being thus exercised from abroad, their accounts are not liable to be audited by a recognised auditor. Their activities and affairs in this country remain an absolutely closed book to the public and to the Government of the country. Their weakness, or their strength, may be disclosed from their general balance sheet. The foreign " experts " laid great stress on the extensive security to depositors, of assets outside India, but they did not

*" We are generally not in favour of the introduction of a licensing system. Banking ought to be left to free competition and its development ought not to be hampered."—(Foreign " Experts " Report.)

In what refreshing contrast are the views of another foreigner, who had not the honour of being invited to India to help the Committee will be seen from the following:—

" Thus the Exchange Banks form a relatively unabsorbable and uncontrollable part of the Indian banking system. Their function is quite specialised and results in the anomaly that the exporter has far better financial facilities than the cultivator. The Exchange Banks do attract Indian deposits, but, on account of their specialized business, drain all the money to the ports in the busy season, when it is quite as much in demand upcountry. They have also shown little inclination to co-operate with the Indian joint-stock banks, and this is supposed to have been a cause of the 1913-15 disasters. The study of their operations in India certainly suggests that where, in other countries, overseas banks form an important part of the banking system, difficulties of a comparable nature in connection with the Central Bank control, are very likely to arise."—(" The Imperial Banks," by A. S. J. Baster, page 194.)

†Their representative stated that they supplied some particulars regarding their capital, etc., to the Registrar of Companies in provinces, where they have offices.

‡ It was suggested that a few shares of some of the ' exchange ' banks were held in India, but whether these were held by Indians, or domiciled English people, I do not know. No figures were produced by the representatives of the ' exchange ' banks on this subject.

speak of the danger, which operations of some kind might involve in foreign countries. The weakness of many of those institutions, either through fraud effected in an individual bank, or through a general banking crisis on other lands, would directly involve their Indian constituents. These Indian constituents have no protection in law of their own country and no prior claim even on such Indian assets, as a foreign bank might have in this country, in the event of any of these institutions getting into serious difficulty.

179. As there are no separate accounts of the profits, which they earn in India, I very much doubt if the Indian Income-Tax Department gets from them a proper contribution to the taxes of this country for the protection, which they receive. Since I could not receive the figures of the operations of each individual bank in this country, corresponding to those disclosed freely in the case of an Indian joint-stock bank, I could not raise the question of getting the figures of income-tax paid by these banks. But I would ask the Standing Finance Committee to call for them and to see, whether their contribution to Indian revenue is adequate in proportion to the profits, which they earn in India, compared with their contribution to the income-tax revenue of their own country.

On the personnel of the foreign banks, no Indian has been known to have been employed in a superior capacity. The Editor of the "Indian Finance" truly described them in the following words: "The Exchange Banks entered the field of banking in India long before indigenous joint-stock banks were thought of, and they have throughout sought to maintain the foreign character of their organisation and management." It is noteworthy, that seventy-five years of the working of foreign banks in India, during which they made large profits and distributed them in very high dividends, or piled them up in their formidable reserves, has not elicited even once the suggestion of Indian participation in their enterprise, either in the matter of shareholding, or in the matter of control and directorate, or in the matter of management, or in the matter of superior staff.

They have regarded their place in India as a perpetual place. They have viewed the suggestion of Indian participation in their enterprise either in joke, or in anger, but never in a tolerant and friendly spirit. If they have rendered service in the past, they have been very amply paid for it. They received the hospitality of India and have capitalised their opportunity. They have built up the goodwill, they have created a monopoly, and they show every desire to hold it as a monopoly. They now stand offering insuperable obstacles to Indian effort, not merely in the field of foreign exchange business, but in that part of the internal business, which they have collared.

180. *Complaints against existing foreign institutions.*—A general under-current of complaints pointing to distinct hostility by foreign banks towards Indian persons, Indian companies and Indian institutions generally, was noticeable. Indian jobbers in exchange

were excluded, Indian brokers discouraged or boycotted, bills of lading of Indian steamship companies and policies of Indian insurance companies were tabooed, Indian banks were scoffed at, and Indian effort, generally, either in trade or industry, was belittled. Such was the tale unfolded cumulatively out of what was said and what was left unsaid by Indian witnesses. One can deal in a report of this kind only with illustrations, pointing to the gravamen of the charge rather than submit an exhaustive catalogue. It would be most unreasonable to suppose that responsible parties will come before a Committee appointed by the Government of the country and make allegations, which would be either unfounded, or merely malicious. It would be equally unreasonable to infer, that, because the representatives of foreign banks deny such allegations, they were altogether unjustified. I would illustrate them by the following:—

" *Oral Evidence of Representatives of Exchange Banks Association.*

Question No. 3321.—(Mr. Manu Subedar) You said that banks were in close association for many years with certain well established insurance companies and it was but natural that they should go to these concerns. I would give you an instance where an insurance company established, not in England, but in Java, came here and got absolutely full freedom with the exchange banks; and another insurance company established in Calcutta, but under European auspices, got full facilities which Indian insurance companies of first class standing do not get. Would you call that prejudice or anything else?—(Witness) We cannot admit prejudice, but it may be that we have not gone sufficiently far into the standing of companies, because we have not been sufficiently pressed to do so. There are no hard and fast standards to our knowledge, and there is no prejudice because a company happens to be Indian.

Question No. 3322.—(Chairman) Your point is that there was no deliberate prejudice in the cases referred to, but owing to misunderstandings, or whatever it may be, things turned out so, that it appears that there was a prejudice?—(Witness) My point is that we are a very conservative people and take a long time to change our views. If you press hard enough, we probably will.

Question No. 3323.—(Chairman) We shall leave it at that.

Question No. 3324.—(Mr. Manu Subedar) The prejudice has not broken down with regard to Indian companies. Have the policies of Indian insurance companies been accepted by exchange banks without question?—(Witness) Indian insurance policies have been admitted.

Question No. 3325.—I know frequent instances, where they have been rejected?—(Witness) Probably in a letter of credit issued which is in a form which has existed for 50 or 60 years, where it says that insurance must be effected with such and such insurance company. That existed before any Indian insurance company

came into being, and if there was any prejudice, it was directed against the insurance company, of which we know very little.

Question No. 3326.—Do you suggest then that the passing over of Indian companies was in some cases due to the wishes of the exchange banks?—It was due to the terms of a letter of credit which might have been modified. In one instance when I was approached by an Indian shipper, I wrote Home saying that this letter of credit stipulated insurance with a particular company, but I would like to see it modified in favour of an Indian company, about whose standing, we were quite satisfied and by return of post, this was agreed to."

181. Why those, who "cannot admit prejudice" in their dealings with Indian insurance companies, should have taken the pains to explain the reasons for rejecting Indian policies, I do not know. Several Indian insurance companies existed before 1919, but, since then many reputable and absolutely first-class concerns are in the field. Foreign insurance companies have been putting many obstacles in their way, and have launched out into a tariff war. They have approached foreign banks, but obviously they have not "pressed them sufficiently." Foreign bankers are "a very conservative people and take a long time to change their views." There is obviously another case of progressive realisation, for which Indian companies must wait, until these people, who say, that "there is no prejudice," give up their prejudice. If there is no room for improvement in the support hitherto withheld by foreign banks towards Indian insurance companies, why should the Chairman of the Bengal Chamber of Commerce profess his desire to assist the Banking Committee in smoothening matters, and write to our Chairman, that "with the approval of the London Association, every support is being given to Indian insurance companies"?

Self-complacency, it will be seen, could not go farther. If there was no discrimination, improvement was impossible, and yet the growing public opinion in this direction has already told, even while our Commitee was sitting, and greater recognition to Indian enterprise in insurance than in the past is given to us as an accomplished fact!

182. It would be a travesty of language to say, that complaints were received by us against foreign banks and were investigated. If investigation means that the witnesses on behalf of foreign banks and the member, who represented them on the Committee, had an opportunity of expressing themselves fully with regard to the complaints received, it is certainly true. But there was nothing whatsoever beyond this. Knowing the power of the foreign banks, and also the fact, that working in concert as an association, they have the means, and the will to use the means to put down every one, who would raise a voice against them, if such a party was still engaged in active trade, it is not surprising that individual complaints were very few. It is not surprising, that accusations against the working of foreign banks came before us in a sum-

marised form through representatives of Indian chambers, and that these associations were not in most cases, for the reason indicated above, willing to give individual names of parties, through whom complaints emanated. The absence of such direct facts cannot be interpreted as an indication, that everything is all right and that Indian commercial opinion, in preferring complaints against foreign banks, has been misled by national sentiment or racial prejudice. One can allow for exaggeration or for adjustment, but it would be impossible to consider that the complaints were unfounded. There may be a doubt as to the extent and thoroughness, with which Indian interests are penalised in the working of foreign banks in this country, but the inherent possibilities of the situation abundantly prove, that it could not be otherwise. People, who are powerful and active in trade, who have in them pride of race and intense patriotism and the habit and capacity of working together and for each other, could not give preferential support to Indian interests against the interests of their own nationals. The weakness of Indians in their own country and the humiliating position, which they occupy in the counsels of the state, in contrast with British interests, cannot justify the expectation of scrupulous and excessive consideration for their interests at the hands of foreign banks, except where these foreign institutions had something to gain out of them.

183. That the complaints preferred by Indian interests against the foreign banks, were not vexatious and silly, would be also seen from the earnest appeal to the representatives of 'exchange' banks by Sir Purshotamdas Thakurdas, the Vice-Chairman, in the following terms:—

"*Question No. 3698*.—(Sir Purshotamdas Thakurdas) You, representatives of the Bengal Chamber of Commerce, do generally endorse the opinions expressed by Messrs. Cook and Ingram who were examined by this Committee yesterday and to-day?—Yes.

Question No. 3699.—Therefore the views of the Bengal Chamber of Commerce and the Exchange Banks Association on questions dealt with before this Committee are identical?—Practically so.

Question No. 3700.—The Bengal Chamber of Commerce is the most premier British Association in India?—Yes.

Question No. 3701.—You, gentlemen, have heard the evidence of Messrs. Cook and Ingram yesterday and to-day and you have also heard the various points that have been raised and discussed very fully?—Yes.

Question No. 3702.—Now I wonder whether your Committee would be willing to send us a supplementary memorandum indicating what changes your Chamber and the Exchange Banks Association are prepared to introduce forthwith in view of the discussions and the elucidation of the various view-points which have taken place between the Committee and the representatives of the two bodies yesterday and to-day. We have together discussed various points

very frankly and you gentlemen have all tried to help the Committee as much as you can. You, I am sure, have seen the view-points which have been put to you yesterday and to-day being reflected before this Committee by various Indian commercial bodies. I feel sure that you will be inclined, and think it worth your while to go through your evidence tendered before this Committee and place it before your Chamber and the Association respectively and that you would jointly prepare and send to the Committee a further memorandum (confidentially if you want to do so) indicating what you think can be done forthwith, *in order to remove the disabilities that the Indian mercantile community suffer from at present* that have already been placed before you with a view, first and foremost, to allaying the disturbed feelings in the minds of the Indian commercial community, as also to lightening the task of this Committee in arriving at a satisfactory conclusion in regard to these matters?—We are very glad that you have put the case before us so nicely. We will report to our respective bodies the views of the Committee and shall be very glad to forward to you, if the Chamber and the Association so decide, any considered decisions that they might arrive at."

184. Here was an appeal by an eminent Indian businessman, who, in his capacity as Chairman of the Imperial Bank of India, Bombay, had means of first-hand knowledge of affairs. It was an appeal couched in unexceptional spirit of moderation, and seeking reforms along the line of least resistance on the basis of give and take and mutual goodwill, but it assumed the correctness of the complaints. There was a desire to let bygones be bygones, provided the future could be set right. It is noteworthy, that to this appeal, there was no response in any form at any time, and that none was more disillusioned and disappointed than the distinguished author of the appeal.*

The British, amongst the foreign banks working in India, are members of the British Overseas Banks Association, which was formed in 1917 and of which British banks with a London office are eligible for membership. Its object and activities might involve advantage to England, or to members of the Empire, but could not possibly help India. The forming of associations by banks working in certain localities is the most usual thing for British banks. They have formed an association of their own in this country, but such has been the wide gulf between the British and other foreign banks working in India on the one hand, and Indian joint-stock banks on the other, that never has a proposal for a common banking association been made or discussed.

185. *Foreign Banks in relation to Indian Institutions.*—The attitude of foreign banks towards Indian institutions has been the reflex of the attitude of foreign merchants and traders in this

* Unless the letter of the President, Bengal Chamber (printed as annexure III), can be regarded as a response!

country towards Indian commerce. The consciousness of a privileged position has characterised this attitude, and has resulted in extreme jealousy and intolerance of Indian institutions. There has not been that professional comradeship, which one would expect to see between men engaged in the same operations in a country. The lack of co-operation and of cordiality between Indian and foreign banks has resulted in the feeling amongst Indian banks, that, through their majority in the clearing house, the foreign banks have tried to keep the Indian banks out as long as possible. The refusal to admit an Indian bank to the clearing house, because it is a weak bank, involves a reflection on a bank, which other banks, who are obviously rivals, are not entitled to make. The rules of the clearing house ought to be such, that they offer the necessary protection to all, and the breach of rule by any member, whether Indian or foreign, might be made punishable by membership being taken away. In England, the privilege of being a clearing banker is not extended to foreign banks, and in other countries also, there is reason to believe that some such restriction is made. That in India, an Indian bank should be at the mercy of foreign banks, who are in a majority, for admission to the clearing house, is a deplorable commentary on the whole situation.

186. Another field, in which there has not been the same give and take towards Indian institutions, is the placing of call money. Call money is the surplus cash with bankers, on which they seek to realise a small interest, keeping it at their 'call', *i.e.*, available for themselves, when they need it. The 'exchange' banks, it would appear, have taken call money from Indian institutions, but have not always reciprocated in giving call money to them. The device of placing money at call is the device used in a money market for equal distribution of the money available amongst those, who need them. Not only does it enable the lending bank to realise interest, but it enables the borrowing bank to tide over an immediate shortage, perhaps for a day, or for a week or two, at a charge, which is not heavy. Here again, the explanation of the 'exchange' banks, such as what one would believe from remarks made, was, that the Indian institutions were not strong. Even provincial co-operative banks, which are working under some privileges and many safeguards, were not accorded this reciprocal treatment. The evidence on the Indian side seemed to indicate, that the explanation was not a genuine one, and that the exclusiveness was exercised on grounds other than mere business considerations. The foreign banks had their own Association. That this Association has worked on racial basis, is abundantly proved by the fact, that the British banks, who were originally in the field, still maintain an inside council controlled from London, and the membership of foreign banks of this Association is largely for the purpose of fixing business rules, holidays, etc. No Indian bank has been admitted to the membership, and, while it is true, that the representative of the 'exchange' banks made it quite clear that there was no bar to their admission, and if they applied

this time, they would be admitted, no Indian institution has dared to apply. The evidence before us tends to show, that Indian banks did not expect to be admitted, and they did not want the additional obloquy of having applied and having been thrown out.

The 'exchange' banks would not freely buy remittance from the Indian banks under the rule, which restricts them to deal with members. Nor would they sell freely to Indian banks forward. The case, which came before us, of the 'exchange' banks having refused to sell to the Central Bank of India one lakh of rupees T.T. forward, is the one in point. The amount of risk involved here is, that in the event of the Central Bank not taking up the contract, the bank, which has sold, will be obliged to go in the market to cover it. The loss is, therefore, limited to the difference between the contract rate and the rate, at which the bank would be obliged to sell in the market, therefore, the fluctuation between the contract rate and the gold point, which is the maximum. The possible loss involved in this transaction would, therefore, not be more than a trifle, and the foreign bankers, with a singular unanimity and forethought, combined in inflicting on the Indian institution the loss of prestige in the market, which was inevitable, when it got out that none of the foreign banks would sell to a large Indian bank an amount, which they were daily selling to ordinary merchants. Banks feed on credit, and it would be impossible on behalf of the foreign banks to plead, that they did not realise the influence on credit, of what they were doing.

187. *Association of Foreign banks and their rules.*—It was admitted by the representative of the 'exchange' banks before the Committee, that the object of the rules was to secure uniform action by members, which would not lead to the disorganisation of the market. In other words, the object of the rules undoubtedly appears to be to reduce the range of competition in all directions, where it is possible. An analysis of the rules from the public point of view would be desirable, but the fact that there are five associations working at five different places in India, and that the rules, under which they work, have in the past differed everywhere, militates against such an examination. I was credibly informed by a party, occupying an exceptional position in the financial world of Bombay, who had first-hand means of information, that the rules, which were in operation in Bombay for some years, made a definite discrimination against Indians in black and white. I attempted to get a copy of these rules, but was supplied with a copy of new rules. It also came out in evidence that rules were made arbitrarily and were changed arbitrarily, and they were made and changed without the knowledge of the Indian constituents, who had no means of getting hold of a copy of the rules. It was impossible to avoid the impression, that the 'exchange' banks had chosen, with reference to Indians, deliberately to act in an atmosphere of mystery, isolation and irresponsibility. It is not suggested that the 'exchange' banks had

no Indian clients. Nor, again, that the 'exchange' banks would allow any profitable business to go out of their hands. The gist of Indian evidence was, that the superior staff of the 'exchange' banks showed less consideration for Indian clients and made different and more difficult terms for them in business, and that with regard to Indian clientele, it was not a case of mutual convenience and advantage, but rather a gracious patronage from the banker, even when the business was good, and where the bank itself was fully rewarded for the service.

188. The rules of the Exchange Bankers' Association divide themselves roughly in three classes.* The most important is one, which prevents dealing with any one except the members. The effect of this rule is to keep Indian joint-stock banks out of such business as comes to them in natural course through clients, who are used to deal with them in a large way. In the course of evidence it was specifically mentioned, that the object of this was to prevent the growth of Indian jobbers, who had taken to dealing in exchange. In short, the effect is to secure a definite monopoly for those, who are members of their Association, and to keep out Indians, who may be in a position, or who may be willing to get into the business.

The other set of rules fixes differences between certain positions, and, read in conjunction with what has been said in the last paragraph, it leaves the client of the bank no option, except to pay these differences. The Committee was not able to examine whether these differences are based on fair charge, having regard to the relevant considerations, *viz.*, interest, and the risk between one position and another, or, whether there is an element of penalty in them.

The third classification of these rules refers to those, which fix penalty on customers, who are unable to take up contracts made by them. Calcutta opinion, which came before us, pointed out, that the penalties were high in some cases. This was contradicted by the information given by the 'exchange' banks' representative, who informed us, that there had been recently some reductions in the scale of penalties.

To what extent these rules are legitimate, and to what extent they are in restraint of trade and against public interests, it would be really difficult to say. There has been no previous occasion, when representatives of the public had opportunity to see these rules, or to comment on them. Besides, the rules have been changed from time to time. The absence of any public authority charged with the safeguarding of public interests in this matter is nowhere more clearly illustrated than in their operations through a close association and through arbitrary rules.†

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* For the rules see Annexure IV.

†It would be interesting to know whether the following does not apply to India even more than it applies to other parts of the Empire:—

"In the first place, the banks (both the Imperial banks and the local institutions) are often charged with keeping too large a proportion of their resources in London and starving the local area of much-needed funds.

189. It was claimed for these banks, that they were acting very efficiently, and that their internal competition had brought down their charges very low, so far as foreign exchange was concerned. The charges levied by the foreign banks on trade are composite and involve two elements, *viz.*, interest and conversion of one currency into another. So far as the second element is concerned, it would be a relevant question, whether the whole of the trade of India running into between 500 to 600 crores of rupees, does, or does not pay a purely money-changing charge to the foreign banks taken together. It is interesting to ascertain at what figure this amount could be put, and whether the total, which is bound to be a very large figure, does or does not represent an annual tribute paid by India to foreign institutions, which have a monopoly. Can it be said that this charge is not borne by the Indian producer on the one hand, who receives the residual price after all charges have been paid, and is not covered in the price paid by the Indian consumer for the article, which he imports? That the charges both ways are paid by Indians in the case of India's foreign trade, is, unfortunately, the conclusion, to which one is drawn, because of the peculiar organization of trade and banking in India.

The second element of interest has to be examined separately with reference to import bills and to export bills. The interest charge on the Indian importer is at a fixed rate of 6 per cent. during the pendency of the bill, *plus* the time it takes for money to reach from India to London. It was argued, that this time, which is reckoned at 18 to 21 days, is the time, during which the Indian importer has not got the use of the foreign money, because he has already discharged the obligation by retiring his bill. It was argued that this does not raise the rate, at which the Indian importer gets use of the funds, but such argument is inconclusive. It was further stated, that when he retired the bill, he could buy a T. T., instead of having his money sent by the slow route. But the additional charge of $\frac{1}{32}d.$, which he has to pay on T. T., would still be there, representing excess, which the Indian importer pays. The interest charge on export bills is reckoned at the prevailing rates in India. It will be thus seen, that the charge made by way of interest, both on import and export business by the foreign banks, are not only far above the average, at which they raise their working capital in India, but they are far above the

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The English banks with firm connections in London, are naturally susceptible to criticisms of this sort, but, to some extent, it is true that all London balances have at times been excessive, even if allowance be made for reserve allocations. The reason is not far to seek. South African and Australian banks, for purposes of exchange (and other) business, *form 'rings' for the fixing of exchange rates*, for months and sometimes a year at a time. This is not quite such an unmixed blessing as it appears, as the margins between buying and selling rates have been sometimes large enough to call forth complaints, that the banks were making excessive profits out of this curious arrangement. The margin, however, is always likely to remain larger than under perfectly free conditions."—(Baster, "The Imperial Banks" pages 246-247.)

rediscount rates, which are available to the banks in London. The claim, that these banks place at the service of trade in India money, which they bring over from London, at London rates, has no foundation.

190. The question of efficiency of service would also involve the question, from the point of view of India, as to whether Indian merchants are able to get freely and to the same extent facilities, which are extended to the nationals of those foreign banks. No foreign banks, except the British, came before us in our examination, and the British bankers made it quite clear, that they were unable to extend such facilities to Indian merchants, either because the Indian merchants did not keep their accounts in a particular form, and get them audited by certified auditors, or because they were small parties. The Indian commercial opinion complained, that D/A facilities were not extended to them. The repesentative of the foreign banks sought to make out, that this was a matter entirely between the European exporter and the Indian importer to arrange. This explanation only strengthens the complaint, that D/A facilities in the import trade are less available to Indians than to others. Similarly, in the export trade, it was pointed out, that foreign banks would not discount the bills of Indian exporters, and that they asked for margins and securities from Indian exporters, which they did not get in all cases from the exporters of their own nationality. Here, again, it was pointed out, that in most cases, where foreigners were shippers, arrangements existed at the other end, permitting the payment here of the whole sum on a documentary bill. This may explain it, but the fact that the Indian shipper is at a disadvantage remains. To what extent the foreign banks can be held responsible for this state of affairs, is a matter, that, unfortunately, remained indetermined in our enquiry, as far as it has been carried out, but it is a matter, which needs to be ascertained in public interest. There is, however, no doubt, that the foreign banks have not made the same effort to get acquainted with the interests and resources of Indians. Their attitude has not been encouraging and helpful. It has tended rather to take business out of the hands of the small Indian exporter and the small Indian importer, and to transfer it into the hands of large firms.

It was possibly an easier and safer thing to do for the bank, but it would not characterise their work in India as efficient service. They were certainly responsible for the relation of the Indian exporter and importer, with parties at the other end, through references made to them and exchanged by them with their offices and agents abroad. It may be said frankly, that these foreign banks, located as they are in India, have a monopoly also of this information. They are the principal channel, through whom information about the standing of Indian merchants, whether exporters or importers, would reach the other end, and if parties at the other end are not willing to trust Indian merchants more than they do, even in those cases, where the resources and standing

are unimpeachable, can any one altogether exonerate these foreign banks from the blame?

Indian interests, as exporters and large shippers, are really infinitesimal at many ports in India, but, in the matter of imports, where an Indian importer gets D/P terms, the banks claim, that, in some cases, the bill is retired by a debit to loan account and the documents are given out on trust receipt. The interest on loans being usually one per cent. over the bank rate in the case of Indian constituents, the charge payable would be slightly higher than if it were a D/A bill.

191. *Sterling versus rupee bills.*—The claim of efficient service by foreign banks would be seriously challenged from another point of view. India is the only country in the world, in the case of which, both import and export bills are drawn in foreign currency. The economic consequences of this practice, which may be called an evil practice, are many, but they have never struck and never formed the subject of serious consideration at the hands of those, who have a monopoly service and who claim, that they have exercised their monopoly with moderation and to the advantage of India. A bill being in foreign currency, payment on due date has to be made in foreign currency. Unless some merchant has made a previous contract and bought exchange, he is precluded from settling his obligation by a draft issued by any bank, which is not a member of the Exchange Banks Association. He is compelled to pay in this draft at the B. C. rate, which, the rules have fixed, shall be higher than D. D. rate by 1/32*d*. Import bills in sterling thus leave the importer up to the last moment in the hands of, and at the mercy of the foreign bank.

The foreign banks have attempted, as in other matters,* to be exonerated from the blame on the ground, that it is largely a question of arrangement between the importer and the exporter. In so far as Indian import business is done by D/P, it means that the cash basis, which is evident in the internal trade of the country, is also, in the case of India, largely applicable to the foreign trade, and that the element of credit does not arise. It is possible, that the foreign exporter is not willing to trust the Indian importer. Nor can the Indian importer seek finance on his credit with an Indian bank, because, there is no second signature to the bill,—an advantage, which enables the banks of those countries to give accommodation to their nationals in the form of discounting bills. Thus, British and other foreign houses, who have their own branches abroad, get the benefit and enjoy an extensive credit. Indian firms, under existing conditions, cannot get the benefit of the same kind of credit, or to the same extent, unless they have a branch abroad. The situation has not in itself even the possibility of improvement. It is a horrible situation.

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* *Vide* Question No. 3325, quoted in para. 180.

192. The question of rupee bills is referred to elsewhere in this report, but it met with no encouragement at the hands of the representatives of the foreign banks. It met with the greatest opposition at the hands of the foreign " experts ". The two arguments advanced against the introduction of such bills, are to some extent mutually destructive. If it is a question of arrangement between the European exporter and the Indian importer, and, therefore, a question of price and of conditions of payment, it would depend on the extent, to which Indian importers are not only willing to adopt this system, but are able to enforce its adoption on those, who sell goods to them. There does not seem to be any doubt that the Indian importers would be able to adopt it, as it would improve the credit machinery, so far as they are concerned. It would also help them in the creation of an internal bill market and a rediscount market. The proposal made is likely to meet with the support also from the Indian banks and bankers, who would be able to hold these bills, and, through these bills, to create the connections in foreign trade, from which they are altogether cut off now. Even the foreigners were obliged to admit that in the present state of the world, where manufacturers were keen on selling, they would not be unwilling to conform to this condition, if the importer insisted on it. The other difficulty, which was mentioned, was the rate of interest. It was suggested that Indian money rates being higher than money rates at other centres, particularly in London, in whose currency the import bill was drawn, the desire to create rupee bills would be frustrated. According to the foreign " experts ", India would have to wait till Indian money rates came below money rates in London! This means indefinitely! There are fortunately other countries, where rates are higher, but where some foreign trade bills are in national currency. This was however an eyewash, since it was abundantly proved in our enquiry, that the import bills do not pay interest on the basis of London rates. They pay interest at an arbitrary rate of 6 per cent., *plus* the cost of sending the money back to London, *i.e.*, 18 days' interest added to the number of days, that the bill has to run, when it arrives in India. The longer the period, which the bill has to run, the smaller is the proportion of this additional interest to the total. It is, therefore, at the rate of (6 + x) per cent. that the importer has to pay interest. This rate is nearer the Indian rates than it is to the London rates. The idea, therefore, that the Indian importer will be put off, and would not concur, and actively secure the introduction of rupee bills, does not stand, since it is the importer, who, in his own interests, will seek advantage of the new credit facilities, which, in his case, do not now exist.

193. *Cheapness and efficiency of Banking Service.*—Considerations of efficiency are never absolute, but they are relative. The most efficient thing is that, which serves best, and gives that service in a manner and form calculated to be advantageous in the long run. By this test, it is a matter of very serious doubt, whether the

foreign banks can be said to be rendering efficient service to Indian interests. The suggestion, that the service was cheap, is also a suggestion, which would have to be carefully examined. With what, is it compared when the word "cheap" is used in connection with the foreign banks? Is it compared with similar services rendered in other countries by banks of their own nationality? Or, is it in comparison with the charges, which these very banks make from countries, with whose stage of development India was being frequently compared by the foreign "experts", *viz.*, Singapore, Java, Siam, Indo-China, and China proper? Is it, again, with reference to the profits made by the foreign banks and the reserves piled by them, that the word "cheap" is used? They have certainly not shown any moderation in the profits, which they have taken from India. Lastly, in the matter of cheapness, one must ask, whether their profits do not arise after all their outgoings have been provided for, and whether the very low rate, at which they get their working capital in this country, is not really the foundation of the cheap banking service, which they claim to offer to India? If that is so, cheap service is not a gift from them, and India need not despair of getting equally cheap, but more efficient, service from her own institutions.

194. The pursuit of this subject would be useless, as a vigorous policy of engaging in the finance of internal trade, and of invading the fields hitherto in the hands of the indigenous banker and the Indian joint-stock banks, and of increasing the operations of the internal branches, has been actively undertaken, but an attempt is being made to do this quietly. The foreign banks would not admit, that their activities in the interior have grown. Nor would they admit frontally and definitely, that, in the case of many of them, by far the more important part of their work is internal banking. They are resisting any definite statement, that their principal work in India now collectively is not the business of foreign exchange, but of general banking. They would not admit, though Mr. MacDonald of the Imperial Bank, who came to their rescue, admits, that the deposits taken by them are far in excess of the requirements for the finance of foreign trade.

If the amount of their deposit in excess of the need of foreign trade finance has not gone to the interior, or in internal banking, can it be that the money has gone out of India? The foreign banks have not given a denial to this allegation yet. The heading "advances in India" is a cryptic heading and it may cover advances in India, not for purposes of the finance of Indian trade, either internal or external.

It was difficult, in the course of discussions, to get their representative to admit, that India's obligation to finance the foreign trade would only apply to one-half, and that it was absurd to collect more than this from the public. Foreign trade has un-

doubtedly increased in value, but, from the point of view of the 'exchange' banks, the importance lies not in the absolute value but in the difference between exports and imports. As moneys are coming in from the importer, the bank is enabled to use these moneys to discount the export bills. There are, of course, seasonal variations, the difference in the time, and nature of the credit allowed to importers and exporters, and there is the greater total volume of export bills than of import bills. Even after allowance is made for all these, and for a certain amount of cash, which a bank must carry, the actual amount, which will be required for a bank to engage in foreign exchange finance, would not appear to be considerable. Indeed, this is proved by the statements referred to in paragraph 163, which show that all the foreign banks, operating in this country together did not engage more than Rs. 11 crores in bills of exchange at a time, which may be regarded as the middle of the busy export season. The conclusion, therefore, is unavoidable, that foreign banks, operating in India, are helping their nationals with finance to handle both import and export from Indian money, that, after doing this, they have still large sums left with them, which they engage in internal banking, and from which they are helping their nationals to penetrate in the trade, as far in the interior as possible, and that they have in recent years increased their activities in internal banking to an extent, which makes the position not only difficult and hazardous for Indians engaged in trade, but also perilous and unprofitable for Indian banks.

194. *Profits of the foreign banks.*—The Indian public will look in vain in the Reports of the Central Banking Enquiry Committee for information with regard to the profits of the many foreign banks through their operations in India, and yet this is one of the most relevant and proper lines of enquiry. If the profits are large, when the fact is brought to public notice, Indian enterprise in larger volume might be attracted to the field now covered by the foreign banks. If there is any part of the profits, which is not legitimate, which is the result of non-competitive fixed rate charged to the public by an agreement or a 'ring' amongst the foreign banks, which is the result of a monopoly in the field of foreign exchange, which these banks have managed to get for themselves, and which is the result of any exclusive opportunities, or privileges, which these foreign institutions are enjoying, which are denied to the Indian institutions, it may properly call for a further enquiry and remedial measures. I, therefore, regret that this question was never discussed by the Committee, and no material was produced, which would enable a total estimate of the profits earned by these banks to be made, or its further analysis disclosing excessive or unreasonable gains calling for public attention.

In paragraph 149 a reference was made to the growth of capital and reserves of some of the older British banks and to their activities. In the case of British banks, the shares of which in recent

times are being quoted on the Indian stock exchange, the following dividends are mentioned:—

	Dividend Rate per cent.			
	1926.	1927.	1928.	1929.
Chartered . . .	20·25	20·25	20·25	20·25
National . . .	20	20	20	20
Mercantile . .	16	16	16	16
Eastern	9	9	9	9
P. & O. . . .	5	5	5	5
Lloyds	16·7	16·7	16·7	16·7
Hongkong . . .	64	64	64	56
Imperial of Persia . .	10·6	10·6	10·6	(not known).

The dividend, however, does not convey in itself whether the earnings are large. A dividend indicates earnings of a certain amount, but does not necessarily show the total gain, direct and indirect, nor again the relation of such gain to the cost of service. In the case of foreign banks, other than British, it is difficult in India to get their balance sheets, or to have any reliable facts about them. Particulars about these banks working in India were neither before the Committee, nor were they considered.

195. Amongst the items, on which the foreign banks can earn, the most important will be the item of exchange. Analysing the composite charge made by the foreign banks, and taking out the interest element from it, there would be a charge for the service of changing money from one currency into another. It has to be examined, whether this charge is in practice levied on the whole of the foreign trade totalling Rs. 560 crores. Foreign banks, as a rule, keep books indicating their operations on export and import side, which cancel one another, and it is only for the difference that they come into the market for more bills or more remittance. It is only with regard to the difference that they adjust their own position for various periods in forward exchange. They exercise judgment and they take the risk with regard to this difference.

But a question may be asked, whether the clientele pays this exchange charge not merely for the difference, but for the whole turnover. Is it earned by foreign banks on the invisible imports of India also? It will be interesting to determine, whether a double commission is paid by Indian trade, and, if that is so, whether all of it, or which portion of it, is borne by India. I shall not attempt to make an estimate of this charge, but, if it were calculated by competent parties, the results would be most interesting.

The foreign banks in India receive deposits at low rates. They give lower rate on an average by $\frac{1}{2}$ to $1\frac{1}{2}$ per cent. compared to Indian joint-stock banks, and this factor alone on their total deposits would make a difference of from Rs. 50,00,000 to Rs. 75,00,000 a year. To what extent the benefit of this low rate is transferred to the clientele, and to what extent it is retained by them, is again

a point, that requires elucidation, but, for the decision of which, sufficient material did not come before us.

196. The margin of profits of foreign banks is in deposit rates and discount rates for internal bills. In England and other countries it is invariably lower than the bank rate, but in India the foreign banks have created a tradition, that it should be higher than the bank rate. While, thus checking the development of a bill market in the interior, they are using the bills emanting from India for enriching the London money market, not without profit to themselves. As the export bills from India are discounted on the basis of Indian money rates, their rediscounting in the London money market would put into the pockets of these banks a handsome commission. In the ultimate analysis, however, it would greatly detract from the claim, which they have made, of bringing the use of cheaper money from London for India's trade. The profits, which they earn in this manner, must be said to be altogether out of proportion to the risks, which they run. There is cheap deposit money in India, and cheaper re-discount money in London, and yet the trade in India has to pay more than the importer or exporter pays in England and many other countries. This is the efficient banking service, which these institutions supply to India, and in consideration of which they claim to be left alone and applauded!

Another source of profit to the foreign banks, is in the import of gold and silver bullion, in which for long they had the monopoly, and even now they account for the bulk. The position of foreign banks in respect of the low cash percentage carried by them and their extravagant establishment have been already referred to elsewhere.

197. Foreign banks also make money by undertaking agency work, purchase of sterling securities by Indians, general remittance work, letters of credit, and rents from bank warehouses. They handle the bulk of what may be called the invisible imports by India, and they make profits out of the movement of permanent capital in India, the withdrawal of capital, and the transfer of income on such capital.

They have always objected to Government entering the market, either with unlimited sales or purchases of sterling, or entering it without warning. They have insisted on Government selling, or buying, sterling only through the banks. They have insisted on Government following the market, except where the market has gone beyond the upper or lower gold point.

Whether the foreign banks do, or do not, make money from Government remittance, would be a proper question to raise. The system adopted for Government remittance in India is, that the Controller of the Currency calls for tenders from amongst these banks, and accepts such tender in such amounts as he likes. Is he receiving in all cases a competitive quotation? Can it be said that institutions, who have shown a genius of combining and safe-

guarding their interests in other directions by such combination, will fail themselves, when they have to deal with a Government official? No moral restraints, would prevent them making more out of the Government of this country, if they could. The Committee have not been able to ascertain whether the vigilance exercised in this direction is adequate.

198. On a review of the last fifty years of the work of foreign banks in this country, it is impossible not to feel, that there has been a grave omission in the position not having been carefully looked into on behalf of the people of this country, so far as the foreign banks are concerned. While foreign interests engaged in business were wide awake, authority, claiming to represent Indian people, was tolerant and quiescent. Under the dominance of the idea of free trade and free business opportunities, a situation has been created, in which very large profits are earned by foreign corporations, some of them excessive, because of the lack of competition, some of them not legitimate, because of the monopoly, but, whether the profits are large or small, all of them go into foreign pockets. They swell the drain out of the resources of this country. They spell backwardness and dependence on foreign help in essential matters. They involve many ancilliary disadvantages to Indian trade and Indian enterprise in other directions.

CHAPTER XIV.

FOREIGN BANKS: TERMS OF LICENCE.

199. The problem with regard to foreign banks has been set out in the previous chapters. Questions naturally arose in the Committee in connection with the adequacy of financial facilities to the Indian business community as well as in regard to the applicability of the regulations, which were devised for, and pertinent to, Indian joint-stock banks, whether there should be any interference with the work of the foreign banks operating in this country, and whether they should be made to conform to any requirements either of law or of public convenience in India. The cleavage of Indian and European thought was more definitely marked in regard to this subject than in regard to any other, which came under examination by the Committee. European witnesses expressed themselves happy with existing conditions and deprecated any change. Where they countenanced some change, it was in the matter of a formal licence. The Indian witnesses, on the other hand, expressed themselves with singular unanimity, that they were dissatisfied with the existing order of things, and suggested changes calculated to secure better facilities to, and better opportunity for the growth of, Indian institutions against the competition of these foreign institutions.

This sort of feeling is nothing new. Public opinion in India has demanded the reservation of the field of Indian banking for institutions registered in India.* The Indian Industrial Conference of Karachi in 1913, asked for, amongst other things:—

(*a*) That the use of the term "Bank" should be restricted only to companies registered under the Joint Stock Companies Act.

(*b*) That all Banks not registered in British India having an office or Branch in British India should be registered under the Indian Companies Act, save and except the Banks which are created by a Statute.

200. The Committe were unanimous that the open door to foreign bank in India should cease, that a system of licence should be established, and that it should not be possible in future for any foreign banking institution to establish a branch in India without such licence. It was thus recognised that a bank stands on quite a different footing from an ordinary business, and that it is a public utility institution. It has certain rights in law, which the ordinary borrowers and ordinary lenders do not possess. A bank, not merely through advertisements, but by the very fact of its opening an office, involves a wide and free invitation to the public to deposit their moneys with it.

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* This demand was voiced by no less a publicist than Sir Dinshaw Wacha, who has been the recipient of the highest honours both on the side of the Congress and of Government, and was supported by Sir C. P. Ramaswami Iyer, Rao Bahadur Dewan Hiranand Khemsingh, Rao Bahadur R. N. Mudholkar and Mr. P. D. Shamdasani.

In the case of a foreign bank, the lay public cannot possibly know its standing or affairs abroad, or the relation, in which the home country of such banks stands in relation with India, or the treatment, which Indian institutions and persons receive in such countries. For the safety of all those, who deal with such institutions and as a matter of public policy, it was considered essential by the Committee, that a general system of licensing should be instituted. The foreign "experts" view, on the matter of licences, was as follows:—"We are generally not in favour of the introduction of a licensing system. Banking ought to be left to free competition and its development ought not to be hampered."

The foreign banks, who came to give evidence before the Committee, accept the position with regard to a licence in the following words:

"*Question No. 3292.*—(Mr. Manu Subedar) You said just now that you would have no objection to the exchange banks giving particulars of their accounts in the same form in which the other joint-stock banks did?—Witness: I can say that the exchange banks are perfectly willing to agree to any licence, which Government may prescribe.

Question No. 3293.—(Chairman) Your point, as I understand it, is this: that if the Government of the country considered that a licence was required from every bank in the country, whether it was an Indian joint-stock bank, or whether it was a foreign bank, and if one of the conditions attaching to the licence was the presentation to Government of accounts in a prescribed form, your view is that the exchange banks will not object to that licence. Am I correct?—Witness: Yes. If the Government of India made a general rule that every bank operating in this country, be it Indian or foreign, would have to take out a licence, and if one of the conditions was that it must present its accounts to the Government in a prescribed form, I would not object to that."

201. That a licence should be given as a matter of course to foreign banks established in this country already and should be renewed to them as a matter of course, are suggestions indicating too hasty an enunciation of public policy. The issue of a licence must be a matter of absolute discretion to the authority, on whom such duty is fixed, and its renewal must also be a matter of their judgment in all cases. In Germany, Italy, Japan and Canada, amongst many countries, which have established licensing of banks, the discretion of the Minister of Finance is as a rule final. He is not obliged to give any reasons either for the issue of the licence, or for its suspension and revocation, or for its non-renewal, or for additional restrictions, or variation of the term thereof. This is a wise and salutary provision. It eliminates the possibility of public discussions, which may do harm to the bank concerned, and which may in this manner become a subject matter of diplomatic representations. If India is to play her role as a free dominion, the procedure to copy will be the procedure adopted by free countries.

It would be harmful, if the provisions of law, which lay down such procedure, are unduly influenced by a spirit of narrow opportunism, or compromise, by an overflowing and unmistakable desire to oblige foreign interests and to incommode them as little as possible. The powers of the licensing authority should be as wide and definite as possible, since it is desirable that the exercise of these powers in practice should be just at all times and as moderate as possible consistent with the economic situation and the needs of the country.

202. *The Licensing Authority.*—With regard to the authority, to whom it should be open to give licences to foreign banks, the majority of the Committee have recommended that it should be the Board of the Reserve Bank. The Reserve Bank bill, as it was introduced, did not have any section imposing on the Board of the Reserve Bank any obligations, or conferring on them any powers in this direction. If powers in this direction are to be given to the Reserve Bank Board, it would be at once obvious that the exercise of these powers would not be possible on purely economic considerations, that what are known as political considerations would have to be imported into the exercise of such powers, even when it were universally agreed that normally and except in extreme cases, where it is unavoidable, such considerations should not be brought in. The power to license in other countries is part of the sovereign power of the State. If it is considered wise and proper to delegate this power for the Dominion of India to the Board of the Reserve Bank, the Board would have to put themselves in the position of the State in the exercise of such power. They would have to take cognizance of "reasons of state", which will not be identical with banking reasons and which may be even opposed to financial considerations, even if the occasions for such cognizance are rare. Even a cursory examination of the detailed terms of this licence set out below and the reasons given later with regard to the restrictions proposed, would make it clear that the licensing authority may, under certain circumstances, be called upon to take account of factors other than those, which relate to pure finance. I recommend that the Board of the Reserve Bank should have this power, but only on the supposition that the Board will exercise this power not only wisely, but will reflect in its exercise at all times the national standpoint. Until the Reserve Bank comes to be constituted, the exercise of this power should be left to the Standing Finance Committee of the Indian Legislature. It would be most unwise to delay the introduction of a system of licences for foreign banks, merely because other considerations and larger considerations intervene in the establishment of a Reserve Bank.

203. The terms and conditions of the licence, which is to be issued to foreign banks, emanated only indirectly from the discussions. The foreign banks themselves desire that no obligation should be levied on them, which would not be levied on Indian banks. They were, however, fully aware that many obligations, which are levied on Indian banks, that are registered in this country, that have their head offices in India, Indian shareholders and Indian directors and auditors could not be possibly discharged by them.

A little closer analysis would disclose that the terms of licence of foreign banking institutions in India would have to be materially different. The object of making any terms at all is to protect different classes of Indian public and Indian institutions from unsound foreign banks, from foreign banks now operating, which may become unsound in course of time, from malpractices, unfair competition, anti-social and anti-national activities, which they may indulge in with reference to the Indian public or Indian banks. The equality complex*, it will be noticed, would mean a negation of all regulation with regard to foreign institutions. Foreign institutions act in conformity with laws, under which they are founded, with the policies of their respective countries, and control of their respective boards. These laws may be materially different. These policies and the detailed control may be very different with regard to these institutions amongst themselves and be far removed from the prevalent ideas of Indian law governing Indian institutions, and from principles of public policy, which Indian institutions are called upon to conform to directly and indirectly. The terms of licence, again, in all countries in the world are not the same from time to time. Nor are they the same with regard to different institutions. They are instituted to meet an emergent situation, or to ward off an apprehended danger. They are framed as the result of public opinion in a country arising out of criticisms of the operations of foreign banks, public opinion, in the shaping of which local interests or the voice of the indigenous banks predominate. If these conditions are to be reproduced in India, the enunciation of the terms of the licence would have to be carefully considered by legislature in this light, and not on the crude and unintelligent principle of establishing an equality. The equality, which the foreign banks have in mind, is with regard to privileges, which would be open to Indian banks, but they are adroitly importing the notion of such equality in the matter of regulation, where it can have no place. A glance at the terms indicated below would show at once the absurdity of applying some of them to Indian banks and the danger of omitting their application to foreign banks on the plea of equality.

204. *Terms of licence.*—I enumerate hereunder various terms which ought to be included in the licence given to foreign banks.

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* Note the confusion of thought in the following extract from the Government of India Despatch, 1930, where licence is regarded as restriction, and restriction is regarded as unjust expropriation, equal treatment being suggested as a way out.

"The line taken has been to advocate schemes under which non-Indian companies would be allowed to operate in India only under licence, or subject to special restriction and conditions. Some of the proposals made may be regarded as fair subjects for discussion on their merits, provided that all companies, whether Indian or non-Indian, are to be treated alike, but some advocates of proposals of this kind have not attempted to conceal the fact that one of the objects, which they had in view, was to promote the growth of Indian companies at the expense of British companies, and for this purpose to impose restrictions on non-Indian companies, which would not be applicable to Indian companies."—(Page 163.)

Some of these terms emanated from witnesses, others came from discussions in the Committee and some others are based on the practice of various countries. An examination of these terms would make it clear that the business of licensing is not a formal business. The imposition of any particular term is going to have restrictions of some kind or the other. Every term put in the licence must, therefore, serve a definite public requirement. It should seek to advance a definite aim of national economic policy in banking matters and should assist the programme instituted for the advancement of such policy.

1. The licensed bank should not receive deposits in India from Indian-born persons or joint-stock companies registered in India.

2. The licensed bank shall confine its branches to the port areas only, and no branch shall be opened in the interior.

3. Controlling interests directly or indirectly shall not be acquired in an Indian institution in order to defeat the above provision, or for any other motive.

4. The existing branches in the interior should be withdrawn *pro rata* within five years, and the banks concerned should submit forthwith a programme indicating the manner and extent to which, they will be withdrawn during each of these five years.

5. It shall not be open to the licensee to engage in trustee business in this country, which would put Indian funds in their hands.

6. Except the manager and one official in each branch under him, the whole staff shall be Indian.

7. The licensed bank shall pay full income-tax on its earnings in this country and disclose all accounts and particulars to enable the revenue authorities to frame the demand.

8. The assets of the licensed bank, in the event of liquidation, would be liable to be taken possession of by the Official Receiver of High Courts in India, and the licence is issued on the basis that the licensee agrees that Indian creditors will have a full prior right on such assets. [All licensed banks would have to make the necessary change in their articles embodying this provision and would have to secure from the High Courts in their own country a certified order to this effect within twelve months.]

9. Copies of all statistical returns, reports, papers, and balance sheets, prepared in connection with the business of the Indian branches supplied to their head offices, would have to be lodged with the licensing authority in India.

10. All information relating to business done in this country in the form, in which it is desired by the licensing authority, would have to be given by the bank. The licensing authority will have absolute discretion, as to which of this information should be published.

11. The licensing authority will determine whether, and which, branches of the licensee bank will be admitted to the clearing house.

12. The licensing authority will also determine whether, and which, branch of the licensee bank will be eligible for re-discount or any other facilities from the Reserve Bank.

13. The licensee bank undertakes that its officials shall not participate in any anti-national movement in India, or assist such movement with funds, or in any other manner.

14. That it shall not, in combination with other foreign banks or persons, make a ring or a pool, or a combination, or working arrangement without the express permission of the licensing authority, who will see that such action on their part does not harm interests.

15. That it shall not combine with other banks, Indian or foreign, to make business rules, or impose charges payable by its Indian clients, which shall not have been approved of by the licensing authority.

16. The licensed bank undertakes to conform to the laws of India in all disputes, which may arise between it and any Indian-born person or company registered in this country, and that neither the bank nor any of its officials will claim any special privilege in contravention of such laws.

205. The desire to get in apprentices in the foreign banks in order to make room in the higher staff for Indians, and to get Indian local advisory boards associated at their principal offices in India is a manifestation of the spirit of servility, which seeks a subordinate association with the foreigner. This may be the acme of wisdom, which suggests taking, what can be taken, when more is not possible. But it is also a frank admission that more is not possible and that Indian institutions to replace foreign institutions cannot come into existence now or at any time, that in the foreign institutions a self-respecting place of partnership is not possible for Indians, even when they are willing to pay for their share of the partnership. I have, therefore, refrained from adding to the list of terms any such suggestions.

It is recommended that there should be no restriction against a foreign institution using the word "Bank" in its name. Nor is it essential that the deposit of Government Securities should be taken from the foreign banks operating in India in respect of each branch. I would not recommend the imposition of a special capital tax or turnover tax as in France.

206. It will be noticed that Nos. 1, 2, 3, 4, and 5 are provisions emanating from, and corresponding to, the restrictions suggested in the report with a view to encourage Indian joint-stock banks. With regard to provision No. 6, which wants that the whole staff should be Indian with the exception of the manager and one official in each branch, the views of the foreign banks may be invited, and their difficulties in practice, if any, may be considered. It should be open to the licensing authority to make relaxations,

where a proper case is made out, but the exception should be really exceptional.*

Provision No. 7 is a formal reminder that the licensed institution should be liable to income-tax and that this liability would extend to all the profit made in this country and would come prior to the claim of the income-tax departments of the respective countries of the foreign banks. No material came before us to show whether the Board of Revenue in India were able to secure full income-tax from foreign banks operating in this country, and the insertion of this provision in the licence would be a standing reminder to both sides.

Clause No. 8 involves a special provision in the event of liquidation in the interests of Indian creditors of the bank, and does not involve any hardship.†

Provisions Nos. 9 and 10 merely emphasise that the public authority in a country, in which an enterprise is being carried on, is entitled to the fullest information. Its interest in such information is primarily for the tax, which it has to collect. It has also to watch out that the public interest generally is safeguarded, and nothing is done in a manner, which would jeopardise Indian interests. Such provisions exist in Japan and have not been known to inflict any hardship. The studied resistance to give information to our Committee and the elaborate curtain of mystery, behind which foreign banks have chosen to operate, makes insertion of those terms in the licence very imperative.

Provisions Nos. 11 and 12 are inserted to indicate that the formation of the clearing house is not a matter of right on the part of banks operating in a country, but is a public convenience which must be set up and worked by the central bank of the country on lines most advantageous. Similarly, the relation of banks operating in the country to the central Reserve Bank has to be entirely a matter of discretion of the central authority. Such discretion is vested in the Bank of England in the United Kingdom and is used against all foreign banks. Even the discretion vested in the central bank in Holland was taken away by law in 1926, to prevent the German banks taking advantage of rediscount facilities. The law now requires that no rediscount facilities should be given except to institutions registered under the law of Holland.

Provisions contained in clauses Nos. 13, 14, 15 and 16, are generally provisions requiring loyalty on the part of the foreigner to the legal and other institutions of the country and requiring that nothing will be done in the furtherance of the business interests of the licensed bank, which will be either unlawful, or which, being lawful, will still operate inimically towards Indian interests, or towards the interests of the public. In particular, a term of this

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* A similar provision exists in Turkey. I understand that a law enforcing this provision was prepared and passed within one week after a conversation, which Kemal Pasha had at a dinner, where some representatives of foreign interests were present.

† A provision on these lines exists in Japan.

kind in the licence will secure, by the licensing authority, that examination of the rules and other provisions of the association of foreign banks in India, which has not been properly made at any time at the hands of a public authority.

207. I have proceeded on the basis that the nature of the terms should not be mechanical. They have to be definitely devised with reference to the good of India. Several questions have to be asked, *viz.*, can the present situation, in which a large amount of foreign trade and a considerable amount of internal trade, are handled by foreigners, in which all the foreign exchange banking and a large amount of internal banking are in the hands of foreigners, be allowed to continue in the economic interests of this country? What would be the consequences of the " status quo " and leaving things alone? It is not as if this factor, either in the matter of trade, or in the matter of banking, is a static factor. Both have grown and the more lucrative portion of both has been collared by the foreigner. The profits of both are going abroad and are increasing the drain on Indian's resources, and it is all financed with Indian money. In both directions, there are many signs that there may be even greater expansion of foreign interests. If the answer is that something should be done, then it is recommended that legislature should not be content with merely formal provisions, which would have no material effect. It is not merely a matter of removing the humiliation, both to the State and the people of this country. It is not a matter of securing a sentimental advantage but of warding off a very substantial injury. The question to ask would be, whether these foreign banks would remain foreign, or whether they can ever form a part of the life of this country. The system of licence has to be introduced, and the terms involved in the licence have to be framed on the basis that these institutions will continue to remain foreign, and that, neither by implication nor otherwise, will they have any obligation towards the State or people of this country, that their primary obligations and their secondary obligations will be towards the nationals of their own country. The terms have to be devised on a basis, which would then allow India to develop her own economic life and her own institutions, as best as she can and with such resources as she has.

The foreign banks have non-co-operated with Indians so long and in so many directions, that the time has come for India to analyse the function of a bank, which is after all purely an intermediary between the lender and the borrower. Where the lender is an Indian in a large measure and the money is lent out to the foreigner by a foreign machine, the obvious course is for the Indian not to lend except to institutions, where the bulk of the borrowers will be his own countrymen. If there is some sense in national economy as pursued by all the nations and as belauded even by the English administrator in this country, the same principle should be applied to foreign banks.

208. *The basis of reciprocity.*—I regret I have to express disagreement with the majority, who have recommended that the terms

of licence should be on the basis of reciprocity. The terms, as already indicated, should be such as would secure healthy and ordered development of Indian banking. The imposition of restrictions for the sake of imposing them, without seeking to accomplish a definite economic object from such imposition, cannot be justified. It would actually be, and be interpreted as, a sign of animus against alien interests. There would be no reality in framing restrictions in India on foreign banks, on the reciprocity basis, since there is no Indian enterprise abroad, which is subjected to these restrictions. I cannot visualise the time when India will have fully met her own internal needs, and her institutions will overflow and seek new fields abroad with a view to render banking service to other countries. Until that situation and strength and resourcefulness comes on the scene, India has very little to fear from retaliation in the banking field. With regard to other fields, India's political status abroad cannot be lower than it is. The treatment of Indian persons and institutions in other countries has left much to be desired. Indians everywhere have suffered from the exclusiveness, domineering, domination and exploitation at the hands of foreigners. It is not improbable that European people, other than the British, have taken their cue in regard to Indian matters from the attitude of the United Kingdom. It would be altogether outside the scope of this report to deal with the larger issue of the possibility of India having to suffer from retaliation, if her legislature sets up a system of licensing foreign banks working in this country under terms considered absolutely necessary for safeguarding Indian interests in India. India has to build up her strength in all directions. The foundation of such strength everywhere would be economic well-being. Banking, which constitutes no mean part of this economic well-being, cannot be left to drift in the hopeless condition, in which it now is, merely through fear of retaliation.

Every country in the world has restrictions on the activities of foreigners settled in its limits to the extent, to which its own economic needs require. The danger from alien interests has to exist before a remedy comes to the fore, and when the remedy is devised, it is as a rule applied uniform to all alien interests. I do not know of any country, in which, by legislation or by executive order, different treatment is meted out in regard to banks to the nationals of several countries and institutions belonging to several alien nations. Whatever the law is in Britain, which discriminates against foreigners in favour of British concerns, it discriminates uniformly. Similarly in the United States of America and in other countries. According to the scheme of reciprocal treatment, India will have to pass different laws for different countries. Thus, with regard to a bank, which operates in this country and which hails from the United States, a law would have to be passed prohibiting such bank from taking deposits, or acting in trustee capacity to any Indian or Indian joint-stock company. In the matter of the French Bank, a capital levy would have to be devised and a special tax put on profits and turnover. In the matter of the two Dutch banks, they will have to be precluded from rediscount

facilities at the hands of the Reserve Bank of India. In the matter of the Japanese banks they would have to take out a licence, in which, the terms will be set out by the Finance Minister of this country at his discretion; they may not be allowed to use the word "Bank" in their own name; they may be called upon to put a deposit in respect of every branch in this country of Government securities of the value of not less than one lakh Yen; they would further be obliged to lodge with the Minister of Finance every paper and every statement of account, balance sheet or profit and loss account, or every further circular, which they send out to their shareholders. Their liquidation could be ordered any time by an Indian Court and their assets in India could be reserved for Indian creditors. They may or may not be given permission to open branches and a close watch would be kept on them, that they do not operate in a manner prejudicial to the national interests in India.

209. Restriction on foreign banks on the principle of reciprocity would let off the British banks very lightly. It would revive the complaint of "Imperial Preference by the back door". The operations of the British banks are not only much greater in volume but the British banks have branches in the interior and as British nationals handle a larger amount of India's foreign trade than Indian nationals, their operations inflict a greater economic loss to this country than the operations of other foreign banks, and yet, because in England, on account of the enormous strength of the English money market and with the remarkable patriotism of the British, which does not permit foreign institutions to prosper in the United Kingdom, there are no visible restrictions on the establishment of foreign banks, it is suggested nothing should be done here in regard to British banks! There are some rules now with regard to the employment of a certain proportion of the staff, who must be British, and it was admitted, that there was discrimination in the matter of rediscount at the hands of the Bank of England against paper, which emanated from, or, was accepted by, non-British institutions.* No foreign bank is admitted to the clearing house in United Kingdom. On a reciprocity basis, British banks' licences would, therefore have corresponding terms.

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* *Mr. Manu Subedar.*—You agree with the view expressed by Mr. Buckley, that a bank with a rupee capital in India would not find access to the London money market.

Mr. Currie.—They can get access to the London money market, but not in the same way as an English bank can.

Mr. Manu Subedar.—I thought the London money market was the world money market and that it gave free access to any body.

Mr. Currie.—Naturally they know much more about banks with their head offices in London than they know of banks with their head offices in India, and this knowledge helps them to decide how many bills of a particular concern they will buy.

Mr. Manu Subedar.—Then, in your opinion, the institution, which Dr. Trip suggested may be formed by banks in India, will have this serious disadvantage.

Mr. Currie.—It will have that disadvantage as compared with English institutions in the London money market.—(Extracts from the Report of Discussions with the Foreign "Experts", 9th March 1931.)

Putting restrictions on foreign banks in India on the principle of reciprocity, is thus, to my mind, a travesty of regulation. They would achieve no material result; they would in effect cause the maximum amount of irritation. Collectively, all the restrictions mentioned, as far as information is available, will not, if applied on the principle of reciprocity, cripple the operations of foreign banks in India, or expand the activities of Indian banks, or safety of the Indian public, or aims of national policy, which alone can justify their imposition. They will render the Indian position ridiculous in the eyes of the world. International opinion must feel the weakness of India's position and India's incapacity to devise a system suitable for herself or satisfactory for her needs.

210. The principle of reciprocity, which is, under other circumstances, a sound principle and a logical one, cannot be the foundation for framing terms of licence. It could only be employed after all the restrictions on the various foreign banks, which are necessary, are imposed solely on the ground of India's interests. It could, if at all, then be employed to discriminate administratively in favour of those nations, who give to Indian institutions abroad special treatment. When no such Indian institutions exist, the question would not arise. It was actually mentioned in the discussion of the Committee, that England would retaliate any action in regard to British banks by checking the operations of Chetty bankers in Singapore, but the case is not on a par. The Chetty goes to Singapore with his own money to *lend*. British banks come to India and *borrow* Indian money. But it shows the anti-climax, to which discussion on the basis of reciprocity would lead.

The recommendation of the majority, that the operations of the foreign banks must be restricted on the lines of reciprocity, establishes, however, the principle, that it is right and justifiable to impose restrictions on the working of a foreign institution in India, and that it is a fair and proper thing, as in other countries, for the Indian legislature to pass the necessary legislation discriminating against the foreigner in favour of Indian nationals and Indian institutions. This principle finds equally an expression in the dissenting minute of one group of the majority, who recommend that foreign institutions should not be allowed to establish branches in the interior outside the ports, and existing branches should be withdrawn by them.

211. *Nature of the Restrictions.*—It would be fair to those, who will be called upon in their public capacity to legislate, to indicate here the real conflict of views between one school of thought and another. There will be those in this country, who desire frankly to continue unrestricted opportunities to foreign banks to engage in every description of banking everywhere. From their point of view, time and energy is wasted in creating a system of licensing, and if it is to be created, it should be just a formality, involving a minimum departure from "status quo". I should not be surprised, if there came in existence in India from a sheer reaction to such views, a party, the members of which will seek at all costs to

render it absolutely impossible for foreign banks to operate. The demand of such a party would have solid economic justification behind it. Such a demand would be beset, however, with many practical difficulties, and its fulfilment would create many and disturbing reactions. It would at once indicate an inimical and hostile feeling towards foreign interests. It would savour of vindictiveness. It will involve a sudden change, which may not be in the interests of this country. It would seek to inflict hardship on others without corresponding, or any, benefit to India. A 'bag and baggage' suggestion, however emphatic and clear it may be, is in the direction of destructiveness. It argues weakness, not strength, and it postulates a lack of careful and constructive programme.*

The wise method would, therefore, be to seek the middle path between those, who would wish for and would allow nothing to be done, and those who, with pardonable impatience, aim at securing the whole result at once. It must be remembered that it has taken foreign banking interests in this country seventy-five years to acquire the strength, which they have acquired. It is true that they had the free entry, they had the opportunities, and they had the enterprise. It is also true that they took advantage of the conservatism and the backwardness of this country, as well as of every other circumstance in the political and economic life of India, which served their purpose. But they are there to-day, and the proper method of dealing with them would not be by one stroke of the pen. In the first instance, restrictions should be placed on that part of their activity, which is immediately deleterious and which is admitted to be such by most impartial observers. The first aim should be to prevent further harm. In the field of banking itself, they are doing certain work, which they must be allowed to continue. Since banking is only one side, though a very important side, of the multiple economic life of the country, I recommend that there should be minimum departure from existing conditions.

212. In suggesting the restrictions, to which foreign banks would be subjected in this country, I have kept myself within the absolute limits, which the safeguarding of Indian interests require, I have only picked out regulations, which I consider most essential, and which, I think, constitute the absolute minimum. Briefly stated, these provisions are as follows:—

(1) It should not be open to foreign banks, or foreign persons, or syndicates to acquire controlling interest in any banking institution in India.

* "There are enterprises which Indians regard as national, and which at present are mainly or wholly in British hands. It would be idle to expect that they would be content for an indefinite period to remain without their appropriate share in the conduct of these enterprises, and if the methods at first proposed in order to satisfy Indian hopes must be ruled out because they involve injustice or are inconsistent with the position which Great Britain holds in India, Indians may fairly ask that the British business community should co-operate in finding other methods to bring about the desired result."—(Government of India's Despatch on proposals for Constitutional Reforms, 1930, page 167.)

(2) No foreign bank should take deposits from any Indian-born person or company registered in India.

(3) A bank not registered in India should be ineligible for rediscount and other facilities from the Reserve Bank.

(4) The offices of foreign banks should be confined to the municipal limits of the principal ports in India.

213. The broad principle underlying these provisions is that only banks, which are registered under the Indian law, and which are controlled by a majority of Indian shareholders, should have full and unrestricted privileges in respect of banking in India. Such institutions alone are entitled to the use of that part of the savings of the people, which become bank deposits. Such institutions alone would be eligible for help from the central bank, which would be practically a limb of the state, and which would have under its control the most notable, extensive and concentrated accumulation of funds belonging to the people in India, *viz.*, the banking reserve, the currency reserve and Government balances. Stated in this form, these two fundamental principles of national economy are unexceptional. It is very high time that their application to the banking field should be secured by law. In the case of rediscounting facility by the Reserve Bank, fortunately, it would be possible to secure this without any difficulty, and I hope, without any opposition.

214. *Prohibition of interior branches.*—The object underlying the last of the four provisions, is one, which made a definite appeal not merely to myself, but to many of my colleagues on the committee. It was to safeguard the interests of Indians engaged in internal trade, from which they are being squeezed out by the facilities supplied to their own nationals by these foreign banks. It was also to safeguard the interests of Indian joint stock banks operating inland, which are adversely affected by the entry of foreign banks in the interior. Amongst the witnesses, Indian opinion, wherever it was definitely expressed, seemed to be clear and very emphatic on this point.

It may be noted, further, that a provision of this kind will affect only the nineteen branches of four of the foreign banks, who are all English. These branches are located at eleven places, four of which cannot be regarded as commercial centres, but are more in the nature of hill stations. At the other seven, the Imperial Bank is represented, and in most cases more than one Indian bank. The field covered by these branches of foreign banks happens fortunately to be largely in and near the Punjab, a province, in which Indian joint stock banking has made remarkable progress. It will not be open, therefore, to any one to argue that this will be a hardship on the trading community. It would undoubtedly restrict the operations of these four banks. It is permissible to suggest in their case, that, like all businessmen, they carry the risk of their trade, and one of the inevitable risks, which one runs, particularly in carrying on trade in a foreign country, is the change in the habits of the people of that country, in their customs and in their laws.

British enterprise, which has the reputation of being self-reliant, will not, I am sure, oppose this demand of Indian opinion, or risk the forfeiture of Indian goodwill through political machinations and propaganda.

It is only fair that, while no new branches of foreign banks should be allowed to be set up in the interior, some time should be given to existing branches to curtail their business and make suitable alternative arrangements. It may be expected that the foreign banks, when they are asked to withdraw their branches from the interior, will seek the co-operation of the Indian joint stock banks, or at all events of the Imperial Bank, which is already acting as their agents for the interior, wherever they have no branches. The extension of such co-operation would be welcome and would be helpful to both sides. Business arrangements, however, do not permit of a sudden change-over. It is, therefore, recommended that a period of three years certain, but perhaps five, if a representation is received from them justifying the longer period, should be allowed to enable the banks to remove their branches. If it is a period of five years, it is essential that the removal should be by a definite programme, which may be agreed upon by the banks concerned and it should be *pro rata* during each of the five years, the idea being not to permit the foreign interests to nullify the provisions of law through a period of grace, which is allowed merely to enable them to withdraw their business from the interior without serious hardship, or serious loss.

215. *Controlling Interest.*—The question of controlling interest and its economic effects, which are examined in detail in the next chapter, is purely consequential on the restriction with regard to internal branches. If foreign banks are not to have branches in the interior, and if banking in the interior is reserved for Indian banks, it follows that the provision should be one, which could not be easily evaded. The most obvious method of evading it would be to transfer the interests of one of the branches of these foreign banks to a new Indian company registered in India, which may be owned in entirety, or to the extent of the controlling interest, by a foreign bank. No useful purpose will be served by a mere formal exclusion of the branches of foreign banks from the interior, if this loophole is kept open. The question of the acquisition of controlling interests in Indian institutions by foreigners has, however, already gone beyond the theoretical stage. The Chartered Bank has acquired one of the big Indian joint stock banks, *viz.*, the Allahabad Bank. It is understood that the European holding in the Allahabad Bank is 94 per cent. of the total shares, and there is only one Indian on the Board of this concern. While acting as an independent business entity, the Allahabad Bank serves in reality as a filiale of the Chartered Bank. It has as many as 46 branches and sub-branches and it covers an important territory. In its policy and in its practice as between European and Indian trade, the Allahabad Bank can no longer be expected to act differently from its parent bank. If this door of foreign penetration is not closed, there would be no guarantee that it may

not be used in future for the extension of a system, which is harmful to the interests of India. Who can say whether foreign banks have no designs on the Imperial Bank? It means that Indian banks do the pioneer business. They open up the territory. They build up a clientele, and a powerful foreign interest promptly comes and grabs a ready-made machinery and turns it to its own account. This way lies the peril to the progress of Indian banking. Further, since the path of Indian joint stock banking is to be made smoother and its growth is to be encouraged, various measures of reform, larger inducement and greater help have already been discussed and suggested. If the benefit of these provisions is availed of by foreign interests through their ability to register new companies in India, or to acquire control of old ones in the field, it would mean that there would be less advantage for all to go round, and it would mean the negation of an implied preference, and of privilege to Indian enterprise. The recommendation is, therefore, made that in future it should not be possible for any foreign bank, person, or syndicate to acquire controlling interests in a banking institution working in India.

216. With regard to the Allahabad Bank, logically and properly, if the recommendations, which are made by me, are carried out, it cannot function as a bank any more. It cannot come under the licence as a foreign bank, and it cannot enjoy the special inducements and privileges, which are being given to an Indian joint stock bank. If the measures recommended, restricting controlling interests in foreign hands, are passed, it would be the last of its kind. The authorities of the Chartered Bank, who control this institution, would be entitled to great sympathy and every consideration. They should be called upon to submit a scheme, by which, with minimum disadvantage to themselves, they can transfer to Indian hands the controlling interests in the Allahabad Bank. From their point of view, frankly it means selling out and possibly at a loss. From the Indian point of view, on the other hand, the continued existence and operation of the Allahabad Bank under foreign control is a menace. Several alternatives would be clearly open to the shareholders of the Allahabad Bank to conform with the change in law, which is recommended and which would prevent controlling interests in alien hands. The choice will be theirs, but, in order that they may be put to minimum inconvenience, it is recommended that a period of three years should be allowed to enable them to effect the change.*

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* The following provision in the Majority report is obviously intended to convey, that controlling interests in Indian banking institutions shall not fall into foreign hands in the future:—

"For the same reasons we recommend that no new bank other than a foreign bank should be allowed to operate in British India unless it has a majority of Indian shareholders and is incorporated under the Indian law."—(Paragraph 690, Majority Report.)

I do not know what this implies, and whether it is intended to leave the Imperial Bank of India and the Allahabad Bank with their existing majority of foreign shareholders as they are.

217. *Effect of the system of licence.*—What would be the effect of a licence involving such terms on the operation of the foreign banks in India, may now be examined. The public in India must be fully prepared for a serious hue and cry on behalf of foreign interests, representing restrictions and terms of this kind as a damaging blow to them. Provisions of this kind will be characterised as expropriatory and confiscatory and hard words will be used, the wisdom of the Indian legislature would be questioned, the disregard of international goodwill would be brought into the discussion, and all round, there would be a furore. Foreign interests in India are not yet used to the idea of constructive economic programme devised for the welfare of India, but for all parties concerned, the sooner they get used to it, the better. Nothing is to be gained by superlative wails with regard to purely political action, because the proposal for licence and the terms involved therein are not political.

The effect of the proposed changes and restrictions will be that 19 out of a total of 88 branches would be unable to function after the period of five years, but only four out of the 19 foreign banks will be affected. Foreign banks will have to employ for their interior work either the Imperial Bank or some other Indian joint stock bank. They would have to curtail some of the work in internal banking, in which they are engaged because of the loss of deposits, unless they choose to bring over the money from their respective countries, which are rich and where these institutions can borrow at a rate, that would not compare unfavourably with the rates, which they have to pay in India.* It may be, however, noted that the deposits, which they are precluded from having, are deposits only of Indian persons and Indian joint stock companies. On their own showing in statements contained in paragraph 163, their loans and advances to non-Indians were Rs. 15·24 crores and the deposits from such non-Indians were Rs. 27·49 crores.

They will lose a portion of their deposits in this country, but they will have deposits from non-Indians and that portion of their own capital and reserve, which is assignable to India, as well as their deposits at their own head offices and elsewhere. Only a small fraction, thus, of their total working resources would be reduced and it is ridiculous to suggest that any of these banks will be crippled. Such at least is the indication from the lump figures which are available, of their operations in this country.

218. If there are one or two institutions which are likely to feel the effect of such measures more than others, they have to blame themselves for keeping their operations secret. The foreign banks, it may be further noted, would, even after the restrictions proposed have been instituted, be able to carry on all the functions and activities, in which they are now engaged. They will be able to buy and sell foreign remittance, to discount inland and foreign bills, to sell drafts, to collect money from inland bills, and to give

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* *Vide* Annexure II for foreign deposit rates.

loans and advances with or without security. They will be able to render to their clients all banking service, as before. They will be free to borrow from foreign persons, firms and companies in India. It will be noticed that the restriction with regard to the deposit of Indian money with them, will not make it impossible for them to function as banks in all respects as hitherto. It cannot be seriously suggested that a reduction, on their own showing, of Rs. 38·36 crores in funds, which they collect from Indians, cannot be replaced by these powerful interests from the fabulous resources, which their own money markets possess. To the non-British foreign banks the amount of Indian money thus lost is a mere flea-bite, being only Rs. 3·76 crores. That Holland, United States of America, Japan and France would be hard put to it to replace their share in a shortage in their working resources of such a small amount, is an absurd proposition.

219. The position of the British banks may be examined for a moment. The amount of Indian money taken by them on current account is Rs. 16·6 crores and on fixed deposit Rs. 18·5 crores, making a total of Rs. 35·1 crores. This is a large sum as money goes in India, but it is, as I shall show, a very small fraction of the total resources of these banks. Since the British banks have supplied the figures cryptically and mysteriously "approximately" for "eight principal British Exchange Banks", without mentioning which eight they are, it becomes somewhat difficult. If the following statement, therefore, does not do justice to the position, they have to thank themselves.

The deposit position of 8 British banks operating in India.

	Total deposits according to Balance Sheet.		Total deposits in India.	
			From Non-Indians.	From Indians.
	(£ Million)	(Rs. Crores.)	(Rs. Crores.)	(Rs. Crores.)
Lloyds	352·0			
Chartered	44·0			
National	34·0			
Mercantile	13·5			
P. & O.	7·2			
Eastern	6·1			
Thomas Cook	2·9			
Hongkong	55·0			
Total	514·7	686	22·8	35·1

It will be noticed, therefore, that roughly on this calculation, the British banks would stand to lose 35 out of 686 crores, *i.e.*, about 1/20th of their total resources from deposits. Will it be so difficult for them to make up the wastage from more deposits in London? Their borrowing rate in London, even when the cost of bringing the money over is added to it, would not exceed the rate, at which they are taking the deposits here. If they brought over substantial funds for a long period, the cost of taking the funds back as well as bringing them out, would be spread over more than one year, and need not be heavy under the fixity of exchange which Government have established. Will the London money market resent their taking funds away? The apologetic assurance of the Chairman of the Lloyds Bank, that English funds were not being taken out, would indicate that this would be so. It is, therefore, a matter entirely of domestic policy for the British banks as a whole, whether they would put up with the inconvenience of taking away some funds collected in the United Kingdom for use in India, in order to earn a high rate of profits on loans and advances here, or, whether they would prefer to abandon the Indian field to that extent. It really comes to a question of the mobility of English banking capital and of its being used, where it can earn most. England has boasted in the past of her financial internationalism, and this would be the test. There can be a middle way and a compromise in the sense, that the wastage created by the withdrawal of Indian deposits may be only partly made good by funds brought over from England for the retention of the more profitable of the existing business of loans and advances. There may be still another method of getting over the situation, much less inconvenient to the British banks. They are holding a certain amount of Indian Government securities now and they may borrow from the Imperial Bank, or from the Reserve Bank when it comes to be established, on the strength of such security, increasing the volume of their holdings according to their needs for loans and advances. British banks, it may be pointed out, have a definite way out of the situation, and it is hoped that they will not, therefore, resent or decry and upset a measure most necessary in the present economic condition of India as part of an economic policy, a measure of conservation of the savings of her people and of utilising such savings as the foundation of a truly Indian banking system.

220. Except for these points, which are definitely mentioned, in all other respects, they will be able to carry on their work without any let or hindrance. If such work ceases to be profitable, their course of action is unfettered, as it was when they came attracted by profits. The profits, it has been well established now, have been somewhat reduced by an increase in their own number. It is the decline of these profits, which has compelled the British banks to seek the more sheltered areas inland. A re-adjustment amongst themselves has in any case become inevitable, even if no measures of any kind were taken. The justification, which these foreign banks have usually employ-

ed in the discussions relating to them, *viz.*, that they are rendering valuable service in the field of foreign exchange, would still remain for them, and they would still be in a position to carry on their work in this field without interference. They would still be able to render services to their own nationals from moneys, which, it is claimed, these nationals deposit with them, and they would still be able to earn profits by banking service to Indians from funds brought over by them from abroad.

It is inevitable that those, who have worked freely and without any restrictions, must resent the imposition of restrictions of any kind. It is further in this case unavoidable, that those, who have lived their life under the idea of being a superior and ruling race, should strongly resent having to take out a licence at all, and further that such licence should contain terms of this kind, when the authority issuing such licence would be directed by, and responsible to, the Indian legislature. If sentimental and political objections from the foreign side to the proposed system of licence and to the proposed terms were discounted, it will be noticed that there is no serious room for economic complaint by foreign banking interests. It is true that the field of profit gets restricted. It gets slightly restricted for foreign banks and slightly expanded for Indian joint stock banks. Charity has to begin at home and since nothing can be produced from nothing, elbow room for Indian institutions has to be secured by the imposition of terms, which, as they are enunciated, must be regarded as extremely moderate and reasonable.

CHAPTER XV.

FOREIGN BANKS: THE ECONOMIC EFFECTS OF RESTRICTIONS.

221. *Prohibition of Indian deposits in foreign banks.*—Indian opinion, as registered before the Committee, can be considered to be unanimous in the view that some serious steps would have to be taken with regard to foreign banks working in India. It was realised that the present position was unsatisfactory from the point of view of the safety of the depositors. It was felt also that foreign banks were enticing more deposits than could possibly be required for the finance of foreign trade. It was also pointed out that the deposits with them had considerably increased and had enabled them to penetrate far inland and to engage in internal banking. It was stated that they were underpaying the depositors in India, who could earn more on their savings, if these moneys were invested with Indian institutions or in Government securities. Apart from this injury to the depositors and the lack of safety, it was urged that the lower rate, at which foreign banks could take deposits, enabled them to compete with indigenous bankers and Indian joint stock banks in giving loans and advances on unequal terms. It was, therefore, urged that a tax should be levied on the deposits received by foreign banks to eliminate this unfair advantage. Lastly, the remedy, which found the greatest measure of support from Indian witnesses, was that the foreign banks should be prohibited from taking deposits in India.

It will be noticed that the measure, which is recommended in this report, is that foreign banks should not take deposits from Indian-born persons, firms and companies registered in India. This not only leaves them the right of taking deposits, as such, from parties other than Indian, but, in practice, leaves unimpaired a very substantial portion of their deposits. The economic justification for the measure recommended is to be found briefly in the fact that the savings are meagre in India, and of such savings the amount of money going into bank deposits is again limited. It is the mere accident of some of the foreign banks being older in the field, which secures them a continuance of some Indian deposits, and interference would, therefore, be justified in erecting a barrier, which would prevent the flow of Indian savings in foreign institutions. The economic life of the units constituting the nation in India is much closer and much more interwoven with each other, than it is with the economic life of any foreign individuals. The legal and political institutions of the country, which go to constitute the state are also different, and this state is financially supported not from the resources of any foreigners, but from the resources of Indians. There is a terrible reality in India of to-day in the use of the word ‘ foreign ’ in reference, not to superficial differences, but to economic interests. Indian institutions have come into existence and languished, to the great detriment of the enterprise and resources of India, without any parties being seriously concerned about it.

Indians alone have to organise their life to complete the links in the economic chain to stand by each other against the inroads of foreign economic interests. There is no room yet for internationalism in finance in India, until financial organization on national lines is properly established.

222. On the savings of the Indian people, which become bank deposits, Indian institutions, Indian trade and Indian industry have an absolutely prior claim. It is trite to deplore the flight of capital. Even the Finance Member of the Government of India has recently done so. The notion behind this is that capital, which represents the savings of the people, must go to enrich the money market and the financial system of a nation and must not go abroad. The oft-quoted apology of Mr. Beaumont-Pease with regard to the United Kingdom, which, from the Indian point of view, stands at the other extreme of wealth and affluence, had the same notion behind it. This is how the Editor of the " Indian Finance " commented on it.

" Obviously, Mr. Beaumont-Pease's object in making the declaration was to refute the notion that has begun to spread in British lay circles that British banking resources were being utilised for objects other than the furtherance of British trade and industries. When the people of a country, whose prominence has been built upon the mobility of its capital market and on the international character of its financial structure, can pose these questions, it is no matter for surprise that Indian traders and industrialists, no less than Indian publicists and economists, are asking themselves whether the banking resources of India are being administered to the best advantage of her nationals and for the furtherance of Indian trade in the broadest sense."

The demand in India is thus based on a fundamental economic principle. To give the control of Indian savings in foreign hands is opposed to the primary principle, on which the economic life of western countries is based.

223. Those countries, which claim in Europe an old banking system were never obliged to pass a law in connection herewith, because the evil never arose. They had their own banks and their people had the necessary patriotism as well as sense of enlightened self-interest, which involved the concentration of national bank deposits in national institutions. But banking systems had to be built up in new countries, which had to model their institutions on Europe, and the aim has been uniformly to exclude foreign institutions from the use of local funds. The tradition on this subject in the United States is long and continuous, and New York, where banking wealth is beyond the dream even of some European countries, leads the States of America in this respect, by a definite provision against American money going into alien institutions. In Canada, the gordion knot is cut by the requirement, that every bank working in Canada shall be established under the Canadian Bank Act. In Japan, which has offered to the world a standing model of patriotism as well as of national economic development on the basis

of common and general interests, foreign banks operated long before Japanese banks came on the scene. There is no law prohibiting the taking of deposits in Japan by foreign banks,* but that is only because such a law has not been necessary. The tyranny of Empire banks operating from London has been felt by Canada, South Africa and Australia, and they have attempted in various ways to get free from this tyranny.†

They have adopted various measures, the details of which would be out of place in this report, but in principle they aim at the establishment and growth of local institutions, in whose operations loyalty to Canadian, South African and Australian interests, would be supreme and would come prior to any attachment to, and control of, any outside interest. On the continent of Europe itself, many measures have been taken against operations of foreign banks, not only by small and weak states,‡ but by larger powerful states. The

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* There was some doubt on this point:

"Fullest discretion is given to the Finance Minister to refuse licence to them or impose any restrictions on their work or require any statements from them. *He can forbid the bank to take deposits*, he can disallow it from opening branches at any particular place; he can subject it to any special tax, and in general he can curtail its scope so as to prevent its competition with any national bank."—("Indian Finance," Banking Enquiry Number, page 46.)

† "Lastly, the problem which this amalgamation will inevitably raise for the South African Reserve Bank to solve, will be of an altogether unprecedented importance, and these do not seem to have received much attention.

"'The recent amalgamation'," writes a local observer, "'makes it more than ever imperative that the Reserve Bank should pursue a more active and more forceful policy; otherwise it seems improbable that it will be able effectively to control currency and credit.'"

"It is difficult to believe that it will ever be able to do so, while the present intimate connection of the banking system with London lasts." ("The Imperial Banks," by A. S. J. Baster, pages 242—243.)

"It is perhaps not unreasonable to assume that Lloyds intended taking over the Canadian bank, but were purposely forestalled by the Bank of Montreal, which, as the acknowledged leader amongst the Canadian banks, felt itself bound to resist this new form of dictation from Lombard Street. This seems more likely, as the terms offered by the Bank of Montreal were unusually munificent. Both banks were in excellent condition at the time, there was no case of amalgamation in order to strengthen the weaker member, and since the Bank of Montreal was already well represented all over Canada, this was no case of geographical expansion. If the Bank of Montreal really moved in order to forestall Lloyds, this is a most interesting case (and one that conceivably might have much wider bearings) of the amalgamation movement in England producing reactions all over the Empire. The exactly parallel case of the attempted absorption of the National Bank of India by Lloyds and the consequent hurried amalgamation of the Presidency Banks is noteworthy in this connection."—("The Imperial Banks," by A. S. J. Baster, pages 225—226.)

‡ "During the war, one of the banks went a little farther afield, and opened branches in Spain, but the experiment was apparently unsuccessful as these branches were closed in 1923,—probably on account of trade depression and Spanish legislation designed to discourage the establishment of foreign banks in that country."—("Foreign Banking Systems" by Parker Willis and Beckhart, pages 1181—1182, on the chapter on "The Banking System of the United Kingdom.").

fundamental principle in all these directions is that the economic life and growth of a nation is its own concern and should not be allowed to be interfered with by foreigners. Wherever such interference takes a serious form, it should be checked by law. The evil, it may be noted, is nowhere as great as in India. No parallel could, therefore, be found, and this would justify more drastic action by the Indian legislature in this direction than has been attempted elsewhere. The measures suggested in this report, however, err on the side of moderation. In the case of prohibition of Indian deposits in foreign banks, the economic justification is absolutely complete.

224. The economic grounds urged against this measure were summarised by Mr. MacDonald, Managing Governor of the Imperial Bank. It is a curious commentary on the Indian situation that opposition to a measure conceived in national interests should come from the Imperial Bank, which has derived so much benefit directly and indirectly from the Government and people of India, and which claims to be a pioneer Indian institution.* I shall let Mr. MacDonald speak in his own words.

"*Mr. Manu Subedar.*—There are two considerations which have been put before this Committee in connection with these deposits. One of them is that Indian institutions have a prior right to the savings of Indians in this country and that something should be done to divert the whole or a portion of the deposits going into foreign Exchange Banks at present. What is your view on this?

Mr. MacDonald.—My answer is this. The result would be that the Exchange Banks would have to transfer funds borrowed in other countries and/or borrow from the Imperial Bank of India to replace the Indian deposits, which they now have to the extent required for their exchange business. Exchange operations would be hampered considerably, and the higher cost of funds would possibly necessitate increased exchange margins. In as much as foreign funds were brought in, the interest on them would leave the country. Their finance of internal trade would be allowed to decrease as they would not bring in foreign funds or borrow to any great extent for this purpose. The Shroffs, merchants, etc., who are now financed by the Exchange Banks, would have to go elsewhere for the majority of their finance and the deposits formerly taken by the Exchange Banks could also be diverted to other banks. Owing to their very high financial standing and their very strong balance sheets the Exchange Banks are able to borrow their funds in India at low rates of interest and correspondingly low rates are charged to the shroffs and the merchants. The Indian depositors place their funds with the Exchange Banks and accept the relatively low rates offered as they are satisfied that their deposits are quite safe and they would be unwilling to place them with banks on which they do not place so much reliance except at higher rates and to a large extent not at all. Probably the only non-Exchange Bank, which could attract the bulk of their deposits, is the Imperial

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* Question No. 7948 from Evidence Volume.

Bank of India and the prohibition would give that bank a semi-monopoly. In as much as funds were deposited with other banks at higher rates the cost of finance to the shroffs and merchants would increase correspondingly and trade would suffer."

Was it that Mr. MacDonald should not have been aware that out of the total deposits taken by the foreign banks in India, Rs. 66·3 crores, only Rs. 38·86 crores was Indian money? Could it be that he was unaware that, out of this sum, the amount engaged in foreign bills was in the neighbourhood of Rs. 11 crores only? It is true that he had not the statement before him, which the 'exchange' banks made available to us afterwards, but could the general lines of the working of the foreign banks have remained such a mystery, even to the premier banker in this country, who has spent about thirty years and who is the head of a Bank, which has acted in a true sense as the banker of these foreign banks? Mr. MacDonald himself in his subsequent examination admitted that the present deposits were not only adequate for the finance of foreign trade, but enabled the foreign banks to engage in internal banking.* The possibility that, by offering ½ per cent. more, the foreign banks could attract much larger deposits and even some of the money, which is going in the Imperial Bank now, was also not denied by him.† It is not, therefore, a danger of the depletion of finance for foreign trade, but the menace to the banking system of the country, which has to be considered. If India does not take the necessary steps for restricting the flow of Indian savings into foreign banks, there is nothing to prevent the foreign banks, as a matter of business, to take the necessary steps for increasing such flow to the detriment of Indian institutions. Mr. MacDonald deprecated the proposed restriction, because it would divert the money to other banks, including his own. If all of it went to the Imperial Bank, he envisaged the creation of a money trust and semi-monopoly. If it went to other banks, he was worried about the safety of the deposits and foretold that the cost of finance to shroffs and merchants would increase correspondingly and trade would suffer.

225. It would be noticed that Mr. MacDonald evaded the original question put to him, *viz.*, whether Indian institutions should have a prior right to the savings of Indians in the country. He has not refuted that principle. In dwelling on the consequences of the diversion of deposits from foreign banks, he has exercised a very great self-denial on behalf of his own institution, illustrating more emphatically than anything else could have done, how non-Indians engaged in banking business in this country, no matter for what institutions they are working, hang together. From the representative of the Imperial Bank, which has been fed on exclusive privileges now for the best part of a century, and whose search for new exclusive privileges constitutes a very difficult problem in settling the banking future of this country, opposition to the creation of a condition, which would help them in constituting, what he

* *Vide* question No. 8210, Oral evidence.

† *Vide* questions Nos. 8211. 8212. 8213, 8214 and 8216, Oral evidence.

calls, a semi-monopoly, can hardly be regarded as genuine. I must, therefore, take it that Mr. MacDonald, in expressing his opinion, was speaking for himself and was genuinely concerned at the creation of anything in the nature of a money trust in India in the hands of the Imperial Bank of India. There are other directions, in which such a fear could be entertained, and there would be other methods of dealing with the situation, when it arises. But, in the discussion of the proposal for diverting Indian deposits from foreign banks, the introduction of this topic appears to me to be very far-fetched.*

The arguments of Mr. MacDonald are not conclusive even as far as they go with reference to the other banks. If more deposits are offering, Indian joint stock banks may be enabled to reduce their rates and they would use the benefit of such reduction for strengthening their position, or, by competition amongst themselves, transfer it to the borrowing public. Mr. MacDonald also assumed that Indian shroffs and the trading community are receiving accommodation from 'exchange' banks at a cheaper rate, and the benefit of the lower deposit rate is thus wholly transferred to the public. It has been definitely suggested in our enquiry, that the benefit is not invariably transferred to the public, but is retained by the foreign banks, and the difference of borrowing and lending rates constitutes no mean part of the large profits, which they pile up.

226. That the benefit of Indian deposits taken at low rates by foreign banks goes invariably to the Indian commercial community, is an altogether unwarranted assumption. An atttempt was made by me to examine it from another point of view.

Question No. 8219.—Mr. Manu Subedar: You know that even now this money is not being used in India? Mr. MacDonald: You mean it is used for export?

Question No. 8220.—Mr. Manu Subedar: If money is taken in India and used in Ceylon, Malay Peninsula or Japan, you would not interfere? Mr. MacDonald: That involves a big question and I would like to consider it.

Question No. 8221.—Mr. Manu Subedar: Would you favour us with your views later on? Mr. MacDonald: Yes.†

In his letter dated 29th October 1930, Mr. MacDonald sent his views as follows:—

"I have considered this question‡ and am strongly against any interference with the free flow of bankers' funds between different countries. Interference with economic forces must in this, as in

* The deposits of the Indian Joint Stock Banks and the Imperial Bank of India are already Rs. 135 crores. It is doubtful if all the Rs. 38 crores withdrawn from foreign banks would seek reinvestment as deposits. Further, Mr. MacDonald himself feels, that the bulk would be attracted to the Imperial Bank. Would Rs. 20 or 25 crores more in the Imperial Bank really lead to the danger of money-trust, or is this an eyewash?

† Oral examination of Mr. MacDonald by the Central Banking Committee on 27th September 1930.

‡ Q. 8220. Oral evidence.

other instances, react in ways which largely defeat the purpose aimed at and cause hardship to third parties. In my view the interests of depositors as well as those of borrowers must be considered. If banks cannot find sufficient suitable investments in India for the potential deposit money, they must reduce deposit rates or invest money elsewhere. The higher the rates paid to depositors, the more money they have to spend and the borrowing classes, *viz.*, traders and producers, benefit thereby. Further as stated elsewhere I do not consider that trade or industry in India is in any way starved for finance. In my experience failures have been caused by bad management and not lack of funds. India has probably benefited more than most countries by the use of foreign capital and, if freedom in the movement of capital is interfered with, foreign capital will not be so readily available." It will be noticed that the phenomenon of the export of Indian capital by foreign banks is not denied, but defended. Any interference with this practice, according to Mr. MacDonald, would lead to:

(1) a reduction in the rate of interest to depositors, which will reduce their spending power and affect trade and industry, which rely on such spending power, and

(2) a threat that, if India prohibits the use of her money abroad, there will be retaliation and the flow of foreign capital to this country will stop.

I shall not discuss these points, because they are covered by discussion elsewhere in this report. Mr. MacDonald is looking at the matter from a standpoint diametrically opposed to the unanimous view of Indian witnesses and Indian commercial opinion, when he says: " I do not consider that trade or industry in India is in any way starved for finance."* India could be generous and allow her funds to be exported by foreign banks, if and when she has a surplus, but there is no scope for argument with those, who believe that the banking organization of this country is perfect with reference to the requirements of trade and industry. The legislature would not have urged the appointment of the Central Banking Committee. Nor would Government have accepted their request, had it been so. The main plank of those, who resisted the suggestion about restricting foreign banks from taking Indian deposits, was that the mobility of capital should not be interfered with, and that it was the business of the banker to collect the money where he can, and to use it where he can, to the best advantage. The application of this doctrine inside a country is wise and sound one, though even there, some of the Provincial Committees have very rightly pointed out, the pheno-

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* Others do not think so, as the following will show:—

" That greater facilities for credit both to agriculture and industry are an urgent desideratum in India no one will deny. I would only emphasise in this connection that the first requisite is to increase the amount of capital available to be lent. If this can be done, capital will itself seek outlets, and the competition for them will be a material factor leading to reduction in the rate of interest."—(Address before the Delhi University, 1925, by Sir Basil Blackett.)

mena of bank branches in the interior being made conduit pipes for drawing away the savings of the people from the mufassil. The complete realisation of the ideal of free mobility would, therefore, be only, when money moves down freely from wherever it is plentiful, and, subject to the nature of the security and the cost of such movement, money rates will be equalised. Does money move down freely to India from other money centres? Is such movement belauded and encouraged by the financial authorities at other money centres? Everywhere in the world conservation of national resources receives the primary consideration. It is only the export of surplus funds, which is allowed. Even in this matter, it is notorious that in the interests of 'Home' railways and 'Home' industries, it is nothing unusual in financial discussions in the United Kingdom itself to inveigh against the export of capital. The idea is that individuals collecting such funds and exporting them might gain a high return, but the nation as a whole suffers. The export of Indian savings at the hands of the Chetties for employment abroad and the larger operations of the Chettinad Bank in foreign centres might come to be commented on this score, but there is a material and serious difference, and, that is, that at least the increased return on such moneys is going in Indian pockets, that the activities of the Chetties abroad are creating a balance in favour of India. It is in the reverse direction to the drain, but the export of Indian capital collected cheap in India by foreign banks cannot have that, or any other justification whatsoever. With high money rates ruling in India for trade and industry, for whose condition Mr. MacDonald showed such a marked concern, I would not allow the transfer of Indian savings, even to the extent of one rupee at the hands of foreign banks. I am convinced that if it pays the Chetties to use Indian moneys in that region of the far east, where they have penetrated, it must be also paying the foreign banks. They have not disclosed their operations, and the extent, to which they are, therefore, using Indian funds abroad, remains a mystery. The use by them of such funds is, therefore, a double injury,—an injury to the Indian depositor, who receives a low return, the surplus going into foreign pockets, and an injury to Indian trade and industry, which has, on account of such diversion, to bear higher charges.

227. In the light of the above, Mr. MacDonald's suggestion that "inasmuch as funds were brought in, interest on them would leave the country", becomes very interesting. The bringing of foreign funds in India under safeguards and on reasonable terms for the benefit of Indian trade and industry, has not been opposed. In fact, it has received a very definite measure of support at the hands of the External Capital Committee in the following words:—

"Subject to the limitations given below, the inflow of external capital is not only unobjectionable in itself, but is a valuable factor in assisting the economic development of India."*

* External Capital Committee Report, page 15.

Can it be denied that the importation into India of additional capital at the hands of foreign banks, to replace the void created by the withdrawal of Indian deposits, would be good for India? In the market for loanable funds in India, there would be more funds, and the Indian money market would be enriched. It was the claim of the British banks in the past, that they were bringing such funds in, which was advanced to support their case with the Government of India, as would be seen from references from Government of India's despatches set out in Chapter XI. Since these discussions, conditions have changed, but they have not changed so far, that foreign banks could present the problem of bringing foreign funds to carry on their work as a calamitous danger to the Indian economic system. The payment of interest on money used in India would be a legitimate obligation. It is not the export of interest, which is a menace to the economic life of India. It is, in the first instance, the export of her capital at the hands of foreign banks, and then the export of trading profits and banking profits earned in this country by foreigners through the use of the Indian money, which are at present objectionable features.

It is the export of such capital, which goes to enrich the economic life of countries other than India. With the profits, also goes the skill and experience involved in the operations. These are transmitted assiduously to their own nationals by the foreigners and the first step in the orderly growth of banking in India is the establishment of the principle that Indian savings shall not be a part of foreign banking deposits.

228. *Right of the depositor.*—The question of the right of the depositor to do what he likes with his money has been raised.

Manu Subedar.—Q. Would you allow the deposits of Indian money to swell the working capital of foreign banks established in India?

Sir Osborne Smith.—A. Yes, there should be no interference with the deposit of Indian money with foreign banks in India. I am strongly against any interference in matters on this sort, as people should have the right to invest their money as they wish: the more banks there are that compete for their money, the greater facilities the public will enjoy.

I am very glad that the question of the right has been raised by an eminent banker like Sir Osborne Smith. It is most important, it is fundamental, and must be examined.

The freedom of an individual to do what he likes and to advance his own interests, is relative and not absolute. When a firm of coal merchants at Glasgow was found selling coal to the enemies of the United Kingdom, at a great profit to themselves no doubt, they were promptly hauled up as traitors, and an exemplary punishment was meted out to them for treason. In times of peace, anti-national acts are much more difficult to define and to detect. But every well-organised nation keeps vigilant to

see that common interests do not suffer through individual and separatist action, and that no individual acts in a manner, which would increase the difficulties of the common task of the nation. A careful lookout on the leakages in the economic life of the country is the characteristic feature of those nations that have prospered and held their own, or, of those like Japan, Italy and Turkey, who had to face great odds to secure their place in the international world. Gaps would be noticeable in India in this direction on account of causes, which need not be discussed here. It becomes difficult to locate and ward off leakages in India, when they arise from individual action in the ordinary course of commercial life, where such action has been for a long time openly condoned by the people and has ceased to arouse either comment or surprise.

The question raised is one of the individual's right against the nation. The first principle of national life is that, individuals combine together and look to the support of each other in all respects during peace and war against the outside world. On the spending power of the nation, the producers of the nation have the first claim. On the employments in public and private enterprise, the nationals of the country have a first claim. On the patronage of the state directly and indirectly, the nationals have the first claim. On the protection of the state, an absolutely prior right belongs to the nationals. On the resources of the country, the first claim in India is of Indians, and the savings of the country, which constitute the capital and which constitute the means for developing the trade and industry, cannot be, therefore, placed at the disposal of any but Indians.

229. The private right of owners of property in all countries is in subordination to larger considerations of national life. In many countries, foreigners are not allowed to own property as the best means of avoiding complications or of introducing a large amount of vested interests. Every individual property inside a state exists until it interferes with the state and either for such interference, or for other public cause, it is capable of being acquired, not at a value put by the owner of the property, but at a value which the state considers fair. All rights in individual property are subject to the laws made by the state, which the state has full right to vary in common interests of the country. The laws affect the manner of ownership, the nature of the title, the nature of the transfer and the nature of the devolution in the event of death. In common interests, again, of the nation, every state has the right to intercept the fruits of private property by way of taxes, which have to be paid and which come absolutely prior to everything else. The entire foundation of law and taxation in every country presupposes the limitations of private ownership and of rights arising from such ownership.

In its application to capital, which has been saved by individuals, these fundamental ideas have got to be studied, and on close analysis, it would be found that the rights of an individual to his savings are rights as against other individuals in the

country, but not against the nation. He has his right to his savings being protected from interference by other individuals both in corpus and in usufruct. His rights exist against other constituents of the nation, but not against the nation as a whole. The state, as the mouthpiece of the nation, can, therefore, dictate what he shall do with his savings and what he shall not do, and no rights could be pleaded against that.

Any direction by the state must be presumed to be the result of a full consideration of all issues securing a net advantage for the community. All individual rights in a modern state are restricted with reference to the rights of other persons in the community. As against those, who have savings, must be considered those, who show enterprise. It is from the activity of producers as a class that the wherewithal for the support of the nation arises. Even in a moderate statement of relative claims, the active section of the community would come much prior to the drones of society. The possession of wealth, whatever it may mean to those, who own it, is not a symptom, at which the community can rejoice, unless this wealth is part of the total assets of the nation. The pride in the wealth of a nation arises from this fundamental expectation. Otherwise, Britain ought to be proud of American millionaires and India to be glad that the wealth of the world is increasing, while she is being impoverished.

230. There has been greater interference in many countries with individual rights in the matter of trade, shipping, insurance and banking. Owners of such concerns have been precluded from doing certain things and have been asked to do certain other things, sometimes to the detriment of their individual opportunity and gain. Very severe steps have been taken in different countries with regard to the export of capital and operations in foreign exchange. Identical measures adopted in any particular country cannot be adopted in India, because the situation is not the same. Each nation has to devise a remedy according to the conditions, which it is called upon to deal with. Those, who feel the inconvenience of any particular state measure, can grumble, but it is only the force of public opinion, which secures the passage of a law, sustains that law during its existence, and is ultimately responsible for its repeal. No one, in any other country has, however, raised the fundamental question as to the right of the state to interfere with private individuals in their own interests as well as in the interests of the nation. It is only theoretical anarchists, and nihilists, who want no regulation and who want all negation of state.

It will be noticed that the interference with the right of an individual to his own wealth, which is suggested in the restriction of Indian savings being placed with foreign banks, is thus reasonable and sound and in conformity with notions, which have governed the economic life of advanced countries. Promotion of the enlightened self-interest of the nation brings more good to all, than individual pursuit. This is strigingly illustrated by the

case of national economic policies pursued by Germany, Japan, and since 1922, by Italy. It is further illustrated in the case of Turkey. Where the nation was ready, or was compelled to act as one man, many problems, which were difficult, became easy. Where individual tendencies to break away, are controlled, success is ensured to common policy and the fruits of the success are uniformly available to all, to the taxpayer in the increase of his resources and in lightening his burdens, to the producer in larger capital being made available to him on easier terms and of better price being realised for his produce and for his output, to the saving classes in better security near at home, available at all times, not likely to be frustrated by international complications.

231. *Safety of Depositors.*—Mr. MacDonald, in his reply quoted above, referred to the belief of the Indian depositors, that their funds in the hands of foreign banks are quite safe. The safety of depositors forms an important part of our reference, but did not come up for discussion except with regard to the following recommendation of the majority (the representative of the 'Exchange' banks dissenting):—

"It has been suggested to us that special safeguards should be provided for protecting the interests of Indian depositors and creditors in the event of winding-up of non-Indian banks............ We recommend that there should be some arrangement under which the Indian creditors of a non-Indian institution taken into liquidation should have a prior claim on its assets in India and should also share in the general distribution of its assets outside the country should there be a shortage in the assets held in India."*

This recommendation came to be made largely on the basis of what was reported to be the practice in Japan, not merely with regard to banks, but with regard to firms. The episode of the suspension of payment by the branch of a Japanese bank in Bombay had also something to do with this recommendation. I have joined in this recommendation and embodied it in the terms of licence, which is to be issued to the foreign banks, but I am not convinced that such a recommendation could be effective. The facility, with which a branch of a foreign bank working in India can turn many of its securities into cash, and can remove the whole cash by telegram abroad, discloses the weakness and futility of any such provision. I have been convinced after anxious thought, that Indian depositors in foreign banks stand exposed to a risk, against which no effective protection can be given to them. In placing their money with foreign institutions, they seek their safety in a foreign economic system, of which the foreign banks are a part. It is a deliberate choice by them, and if the foreign institution is already weak, or develops weakness later, there does not seem to be much, which the Government of India can do for them.

* Majority Report, paragraph 743.

232. That the danger to depositors, who resort to foreign banks, is real in times of peace, and more so in times of war, cannot be gainsaid.* It is, therefore, an irony of fate, that it should be open to any one to argue, that they are seeking not danger, but safety, in putting their funds with a foreign institution, and that their reliance on the Indian institution is less than their reliance on foreign institutions. While the safety to individual depositors is a matter of some doubt, their collective action involves a peril to the country, against which provision must be made. The question of safeguarding the interests of the community as a whole is infinitely more important than the convenience of a few individuals. The flight of capital abroad seeking, presumably, greater safety than a country can offer, is promptly checked by all nations, who resent the humiliation and the material injury from such a course. There is more than ordinary parallel in the situation under review in India. But the suggestion, that the prohibition of Indian deposits with foreign banks will render the position of these depositors very unsafe, is one, which is mischievous and unsound.

233. Are Indian banking institutions as a class more unsafe for depositors than foreign banks operating in this country? The Banking Committee certainly had no material before it to be able to answer this question. Is there a belief amongst the Indian public to this effect, which would justify such a generalisation? Again, we had no material to indicate such belief. Such a belief by foreign bankers in India, including Mr. MacDonald, seemed to be founded on an inference from the fact that the rates, at which foreign banks borrow, are lower than the rates, at which Indian banks borrow. Evidence was produced before us to show that in some cases at least deposits of Indian concerns with foreign banks were guided by considerations other than those of interest. They were induced by hopes or better business facili-

* Who can say, whether the British and other foreign banks are not still liable to the dangers? The following will give some idea of the kind of dangers and disasters, from which Indians, depositing their moneys in foreign banks, may yet suffer :—

"The early difficulties of the first overseas banks, in the days of slow and irregular communication, may well have seemed almost insuperable. As a result of this, excessive reliance upon the integrity and business acumen of the colonial staff led naturally, as in the case of the Colonial Bank, the Eastern Exchange banks and most of the others at various stages in their career, either to fraud or to gross mismanagement. It is no doubt the many severe lessons learnt by the Eastern banks in this way, which deter them from relying too much upon the native staff."—("The Imperial Banks," by Baster, page 257.)

"The disastrous failure of the Oriental Bank Corporation in 1884, though an apparently conspicuous exception to this, was in fact not due to defects of organization at all. The bank, the most famous of the Eastern Exchange banks of those days, was operating, at the time of its failure, a far more widely network of branches than any Imperial bank at present,—Bombay, Calcutta, Kandy, Madras, Mauritius, Melbourne, Hiogo (Kobe), Hongkong, Point de Galle, Sanghai, Singapore and Yokohama, with dozens of sub-agencies dependent on these branches and the inevitable Deposit Agency at Edinburgh."—("The Imperial Banks," by Baster, page 258.)

ties, or fears of existing facilities being cut off. Behind such deposits, there was often a desire to secure a good bank reference for the purposes of foreign trade. In all such cases where incidental advantages come into the question, the rate of deposit is secondary. All foreign banks do not offer the same rate, and there is some variation in the rates offered by the same institution for short period deposits and different seasons. There is, besides, in the fixing of the rate not merely the question of supply, but the question of demand, and the consideration whether a bank can get at a certain rate, all the money, which it can profitably use. To the extent to which foreign banks are older, larger, and have accumulated reserves, the merit is not inherent in their being foreign, but lies in an evanescent factor. To what extent it is a question of popular psychology, of habit, and of propaganda, has also to be examined. It must be also seen whether depositors in Indian banks and depositors in foreign banks come from the same class, and to what extent they constitute common group, amongst whom this belief of greater safety in foreign institutions is alleged to prevail.

The matter is so far-reaching that the Indian legislature, when it considers this, would not have to be content merely with carefully ascertaining whether, for Indian depositors, foreign banks are considered more safe, and are in fact more safe,—but what should be done in order to give greater safety to Indian institutions and to increase public confidence in them. The question of safety has been, in my opinion, very much exaggerated. It does not constitute a serious obstacle to the introduction of the restriction, which I have suggested, at the moment.

234. The question of safety of funds of the depositors must be considered with reference to the alternative before them. It would appear very curious from the Indian point of view, that a multiplicity of foreign banks taking deposits has not raised the return to the depositors. The cry of "depositors in danger" would have come more aptly, had these depositors been earning higher rates from foreign banks and had they been prevented from reaching out to these rates. Since that is not so, the question of safety would appear to have been brought in by foreigners as a convenient base to reflect on the soundness of Indian institutions. As an alternative to foreign banks, Mr. MacDonald himself admitted that the Imperial Bank would attract a good share, and it may be granted that a certain amount will find its way into Indian joint-stock banks. There are the provincial co-operative banks, also ready to cater for the depositor. The safety of deposits in this class of banks has not yet been called in question, and the public confidence in them has been very materially increased by the prompt action of Government in regard to the Provincial Co-operative Bank in Burma. As a result of recommendations of this Committee, various institutions for the finance of agriculture, particularly on the land mortgage side, of industry, and of foreign trade, will be called into existence. The depositor will then have his choice. He has also his choice in

Government paper and the debenture securities of municipalities and port trusts, which yield him not less than what he is getting from the foreign banks. For the smaller parties, who deposit with foreign banks, the postal certificates are a very attractive line. The measure prohibiting Indian deposits in foreign banks has been suggested after careful consideration of all the economic factors involved, and it would be a pity, if an attempt was made to create an artificial stampede amongst the depositors and to spread an alarm as to what will happen to these children, when they are released from the apron-strings of the foreign mammas!

235. It was suggested by the representative of "Exchange" banks that a provision restraining Indian deposits in foreign banks would lead to the sale of Government securities at present held by foreign banks. The amount of "Government and other Indian securities and Indian Treasury Bills" indicated in the statement supplied by them was Rs. 26·3 crores on 31st of December 1929. The larger investments in Treasury Bills about this time may be regarded as an abnormal feature arising out of the exchange situation. What the normal investments of foreign banks in Indian Government securities are, is unknown. No published figure for previous years exists at all. Nor is it known whether they held Government securities in any considerable quantities before the war, and whether increased holdings in Government securities are not the result of larger yield on Government loans in recent times. Taking the combined rate, at which these foreign banks take their current and fixed deposits, in the neighbourhood of 3 per cent., and the yield on Government security in the neighbourhood of 5 per cent., it leaves them a handsome profit. There is not only an established market for Government securities, but there is the certainty of receiving finance on such from the Imperial Bank. The holding of Government securities by the foreign bank in this country has, therefore, been purely from business motives and for their own profit. If Indian deposits alone are withdrawn, the amount of Government securities and other Indian securities including treasury bills which they would probably be called upon to sell, would be in the neighbourhood of Rs. 15 crores. The strength, which Government loans derive from the purchases of foreign banks may be important, but it is not so important as to negative an urgent measure of economic reform, preventing Indian savings becoming foreign banking deposits. Besides, the figures are lumped and include Treasury Bills and other Indian securities. The support, which is withdrawn from all these directions at the hands of foreign banks, might to some extent be replaced with the additional support, which all these classes of securities would receive at the hands of Indian banks. In any case the totals of all these classes of securities held by the public with reference to the amount, which the foreign banks are threatening to release, is so inconsiderable that there is no cause for the slightest anxiety in this direction.

It has been already an accepted principle of Government policy in this country, that expansion of banking is necessary and it de-

serves public assistance. Action on this principle was, however, taken only in reference to the Imperial Bank. In another part of the report arguments have been advanced, why a much wider application of this principle is necessary.

The country will have the choice of encouraging banking by direct assistance, or by the regulation, which will prevent the flow of Indian savings in foreign institutions. The direct method of economic assistance by a state has its limitation. The better method would be to create a general improvement in the outlook of all Indian institutions, and leave it to private enterprise to avail itself of this general inducement as far as it can. The assistance would be indirect, but it will be more potent.

236. *Controlling interest.*—It is desirable to create a definite change of outlook in economic matters in India. Foreign banks must be made to realise that opportunities in the field of banking in India are no longer unrestricted. They will be welcomed, they will be protected, they will be given the full benefit of the law, but they will not have preference over Indian institutions as in the past. Indian institutions cannot take the crumbs left at the high feast by foreign banks. It has to be the other way, if India's economic safety is to be secured. Vice versa, the mentality of those, who are concerned with Indian joint stock banks, has also to be altered. More hopefulness has to be instilled in them and their complaint in the past, that they had an uphill task working against the grain, should be met with. The attitude of the Indian public, which, in the matter of banks, has been thoroughly demoralised during a period of fifty years, when they have learnt, rightly or wrongly, to despise their own institutions and to esteem foreign institutions more, can be only altered gradually and the restrictions, including this one, have been intended to guide their attitude. The main reason, however, for prohibiting foreign interests from getting control of Indian banking institutions, is to prevent them vicariously getting advantage of inducements and privileges and preferences, which the state might give to Indian banks. It is similar to the creation of foreign industries behind the tariff wall, but, in the case of banking, much more serious. It is required also to see that the licensing system and the terms introduced therein are not defeated by the simple device of registering an Indian institution. The introduction of this measure has become inevitable after the specific case of the Allahabad Bank, where, by one stroke, foreign interests secured banking control over a vast territory and penetrated into a field, where they did not operate before. It would be impossible to estimate, but no one can deny, that in a million little ways Indian interests must have receded and foreign interests advanced in trade through this acquisition. While the state can watch the overt action of foreign banks, it would find it difficult to meet underground penetration through this means. Not merely in the interests of easier regulation, or in order to restore and sustain the self-respect of Indians in the banking field, but on purely economic grounds the retention of control in Indian hands is desirable. It has to be remembered that foreign control means

restriction of the employment of Indians and also the passing of banking profits earned in India into foreign pockets. An Indian joint stock bank would have Indian shareholders as well as Indian depositors, but, however wise and shrewd these may be in their own individual affairs, they would not always have the capacity, or the opportunity, of knowing what goes on in the field of high finance, and even if they knew that an attempt was being made by foreign interests to acquire control of their institutions, they would not always have the means of warding it off. The Indian law has, therefore, to come to the assistance of the Indian public. No foreign interests would seek control of an Indian institution for the fun of it. They would have a deep-seated business motive in doing so, and the direct opposition, in which Indian interests and foreign interests stand in juxtaposition in many places in the economic life of this country at present, makes it imperative that such prohibition by law should be established.

237. *Rediscount and other facilities.*—The third restriction is one, which restricts the benefit of rediscount from the Reserve Bank to Indian institutions only. The fundamental economic principle in this is the same, *viz.*, that Indian institutions should have a prior and paramount claim to the use of Indian savings. The facilities given by the Reserve Bank will be of two kinds. There will be facilities in normal times and facilities when a banking institution finds itself in difficulties. The question is dealt with at greater detail in the chapter dealing with the Reserve Bank. Briefly, it may be stated, that if Indian deposits are not taken away from foreign banks, the Reserve Bank would find it very difficult to control the foreign banks. For the same reason, the foreign banks cannot become member banks in the Indian Reserve Bank. The foreign banks have their head offices in other money markets. They owe their financial allegiance there, and when there is money to be made in an expanding boom, they will get their additional finance from "Home" and will not be amenable to the precautionary measures, which may be initiated by the Indian Reserve Bank. In the action of the Reserve Bank in controlling expansion of credit, and of contraction of credit, the experience of other countries has been, that foreign banks do not give the same ready submission and co-operation,* which local institutions are ready to give, and have

*"The position of the Imperial banks in this connection is of interest. It may well be asked whether the Reserve Bank of India or the South African Reserve Bank will find their operations hindered by the presence in the local banking system of very large and powerful institutions, whose shareholders, direction and financial support, come from a centre altogether external to the Central bank's own sphere. To escape a Central bank's penal rate for rediscounts, all these banks would go to the London market or the Bank of England, and short of a very thoroughgoing form of co-operation between the Bank of England and its prototypes in the Dominions and India, no local Central bank can stop a practice which is obviously fatal to its assumption of money market control. It seems certain that for very many years yet, the local monetary centres of the Dominions and Colonies will be altogether subjected to London, and that independent monetary policies will be practically impossible."—(Baster "Imperial Banks," page 217.)

no option but to give. Rediscount facilities from the Reserve Bank, if they are at a special rate, constitute a direct encouragement, which should be extended to Indian banks only. Rediscount facilities at penal rates are a form of insurance, which must be available to those, who have contributed directly and indirectly. A bank set up from state funds and holding current Government balances and concentrating within itself the credit of the whole country, cannot put itself at the service of those, who are legally, politically and financially outside the circle of Indian life. To the extent to which the Indian Reserve Bank will undertake obligations towards these foreign institutions, its resources to help Indian institutions would be reduced. These resources are by no means unlimited. It is important that the policy governing their use should be conservative. A menace to Indian banking may arise from the action of foreign banks themselves, as was the case in 1900.† Whether there have been since 1900, runs on Indian banks, bank failures, or general difficulties, in which foreign banks had anything to do, is a matter, which can be cleared up by a future historian.‡ If powerful foreign institutions have created difficulties in such centres as London and Amsterdam, requiring strong action at the hands of the central institution, where the local banking system was by no means weak, what can be expected in India, where banking progress is limited and foreign banks are all powerful? The best thing for India in this respect is to be guided by the experience of more powerful nations and to keep out the foreign banks from rediscount and other facilities.

238. *Restriction on internal banking.*—The economic effects of this restriction have been already indicated. The aim should be that the organization of internal trade and the organization of the finance for the internal trade should be reserved for Indians and for Indian institutions. It is not desirable that the foreigners should penetrate inside to the Indian producer to take in his commodity, or to the Indian consumer to sell the manufactured goods. India will continue to export her surplus and to import materials, that she cannot manufacture locally, but a process, which transfers the control of Indian economic life in foreign hands, should be stopped, at all events in the first instance, at the ports. This is a measure, on which several of my colleagues on the Committee felt as I do. It would be the premier measure required to pull up this country from the economic disorganization, in which it has fallen. It will also give an opportunity to Indian banking institutions to expand that field, in which they are at present fully prepared and competent to expand under the leadership of the Imperial Bank of India. This is also the measure best calculated to help in the creation of that bill market, the absence of which is a feature of Indian banking weakness.

239. *A Warning.*—The measures suggested above are moderate and have full economic justification. But in the early stages of our

† *Vide* Chapter XI.

‡ *See* Baster's views in footnote on page 199.

enquiry, ever since the question of prohibiting Indian deposits in foreign banks definitely arose, an attempt has been made to defeat that measure by dubbing it as an extreme measure, by pointing out that the time is not yet ripe for such a measure, and that public opinion is not well informed. There are people in this country, who will argue in a vicious circle. They will say, "Let Indian banks come into existence and grow into strength before taking such measures". The fact that during subsequent months, I found myself in isolation on this issue from my colleagues, makes it necessary to utter a warning. Without this measure, foreign banks will not only continue strong, but will expand, and Indian banks including the Imperial must languish. Not only will the sense of rivalry between Indian and foreign institutions become keener than it is now, but there will be room for bitterness and suspicion. It is not very difficult in a situation of this kind to forecast the state of Indian public opinion. The responsibility for any situation, which may arise from this, will be on those, who advocate leaving things alone. Who can say what effect, steps which Indian opinion is taking in other matters and in anti-foreign demonstrations, will have not only on foreign banks, but on the banking system of the country as a whole? I see a clear duty on the state to give the lead to public opinion on this matter and to guide it. It will be easier to deal with it this way, than to deal with it when a more difficult situation arises. Incidentally, the nature of assistance to Indian banks and the limits of such assistance will have been defined and the foundations laid of a clear and permanent policy.

MEASURES FOR SECURING GROWTH OF INDIAN INSTITUTIONS IN THE FIELD OF FOREIGN EXCHANGE.

240. It will be noticed that the measures suggested by me for dealing with the situation created by the foreign banks filling so large a part of the picture in India, are all in the direction of improving the outlook for Indian banks. They are broadbased on the notion that banking is part of the general economic life of this country, with which it can prosper or expand side by side. It will be noticed that the desire is to retain for Indian institutions that, to which they are legitimately entitled. There should be a clear recognition that India has an economic life separate from the rest of the world, and that Indian banks are part of it. I have pleaded for such recognition on approved lines. The restrictions suggested involve the reservation for Indian institutions of the internal field and larger inducement to Indian banks through exclusive privilege of taking deposits from India. I trust it will be noted that there is no measure of any direct hostility to foreign institutions working in India. I have tried to place the searchlight on their attitude towards Indians in the past, on their methods of work and on their progress, but I have not suggested anything inimical to them as such.

For the legislature in India, it would be of importance to envisage the future relation of foreign and Indian institutions. Are

these relations going to be in a perpetual atmosphere of racial bitterness, or even of such deadly competition as has been witnessed in other fields, such as shipping and insurance? Is there going to be a search for goodwill on both sides, for co-operation and for a common purpose? On the reply to these questions would depend very largely, in what way and to what extent the monopoly of foreign exchange business is to be broken and a share in this business secured for Indian institutions.

241. Some indication of the line of advance came out in our discussions. It was generally felt that foreign banks were powerful and would give a very strong battle to any Indian institution, that attempted to do foreign exchange business. The fight, it was felt, would be unequal, and it was not reasonable, as things are, to expect Indian private enterprise to venture into this field. The European interests deprecated any state-aided competition, and felt that the line of advance lay in India buying out one of the older British institutions and paying it fully for the goodwill, which such an institution had built up. Another opinion pinned its faith in the Imperial Bank and expected that, when the Reserve Bank was started, the Imperial Bank would, without any inducement successfully enter this field. Mr. MacDonald's opinion that the Imperial Bank could do so without any initial difficulty, strengthened this hope.

242. The inconsistency in the attitude of the Imperial Bank must strike everybody. At the time of the amalgamation, in 1920, when Government might have been willing to give them the privilege of exchange business, they did not even try for it but came to a prior understanding with the foreign banks. Subsequently they have complained that they were working under restrictions, which curtailed their profits, and the biggest of such restrictions is that, which keeps them out of the field of foreign exchange. The ways of vested interests are indeed devious. Why the Imperial Bank should ask for any inducement or concession, and the Committee should be persuaded to give them this inducement to go in for this business, passes my understanding. It is further more than curious that the inducement takes the form, not of assistance with a monopoly of Government remittance or any other privilege, which would help them directly in their work of foreign exchange, but the form of sole agency business for the Reserve Bank! The Indian legislature must be on its guard against devices of this kind. The Imperial Bank has an office in London, is already doing foreign exchange business for its constituents, has expressed itself ready to go into that business, as well as anxious. If the Imperial Bank were to represent any of its genuine difficulties in the field of foreign trade created by unequal or unfair competition by foreign banks, such representation would deserve every consideration, but it cannot exploit Indian sentiment that this field should be opened up for its advantage in other directions. The Imperial Bank did not bring before the Committee any concrete proposal. The shareholders and directors of the Imperial Bank have kept the last word with them-

selves and the uncertainty as to the course, which will ultimately appeal to them, overhangs the situation. If things were left merely in this form, there was a fear that an Indian institution would never enter the foreign exchange business. One group in the Committee thereafter came definitely to the conclusion that the best method out of this situation would be the establishment of a state exchange bank, which would enjoy a monopoly of Government remittance work. I am dealing with the prospects and difficulties of such an institution later in this chapter, but would like to state here, that the line adopted is one, which does not assuage the antagonism between Indian and foreign, but which accentuates it. The consequences on British banks, whose business would be principally affected, as such an institution would deal with sterling remittance of Government, need not be detailed. The British banks with their large reserves and with the backing of the London money market, would give a fight, and the patriotism of British merchants, who have the lion's share in the business of foreign trade, may be trusted to support British banks against any Indian institution. So long as the authority of Whitehall is supreme in the counsels of the Government of this country, it would be prudent to expect the vetoing of this measure by the Secretary of State.* The result of a fight would be loss on both sides, and on the Indian side such loss would be borne by the taxpayer. Should the state exchange bank come to grief and be wound up, it would be an occasion not only for terrible humiliation, but it would inflame great passion and create a situation of bitterness far exceeding anything, which exists now, or which may be normally expected hereafter.

243. With regard to banks emanating from countries other than Britain, there was only a question of settling reasonable conditions, under which they can operate. Their operations have not been alarmingly extensive. Nor have there been the same variety and the same volume of complaints against them, as against the British banks. No specific solution was, therefore, sought and no specific solution need be recommended. The main reason for this lies in the fact that business of these banks in India is small in comparison with their business elsewhere. Any reasonable regulations, which may be made in India, even if they restricted the business of these banks would not affect them seriously as a whole.

*"From the point of view of banking principles we do not hesitate to define the recommendation as unfair and thoroughly unsound. It aims at the establishment of a State Exchange Bank which would exclusively be entrusted with the work connected with foreign remittances of the Government."

I marvel at the deep concern shown by foreigners in the welfare of Indian institution in the following!

"Competition would not be confined to the so-called Exchange Banks. We fear that the detrimental consequences to the Indian joint stock banks would be worse. We take it as a matter of course that the State Bank would be allowed to take deposits and do inland credit business. This would encroach upon the field of all private banks working in India, including the Imperial Bank."—(Foreign "Experts" Report.)

The problem was different with regard to those British banks, whose business in India constituted the major portion of their business. The secrecy, in which their operations are carried on, prevents one from saying which banks they are, and what is the percentage of their Indian profits. But the impression in financial circles, which came to be mentioned in the course of discussions, was that in the case of some of them, as much as 75 and 80 per cent. of the total business was Indian business. While the measures outlined in the previous chapter are not drastic, any more drastic measures, which may be taken, particularly the setting up of a State institution with a monopoly of Government remittance work and other privileges would cripple these banks. Even with a clear realisation of this, it was not possible to induce representatives of British commercial opinion to discuss the matter of honourable partnership. The only inference one can draw from their apathy, was they confidently expected a continuance of 'status quo', and they did not wish to initiate or encourage any programmes, which might hold out great hopes in the Indian mind of a favourable change. This is much to be regretted, because there is danger ahead for all parties concerned, if the situation is merely allowed to drift.

I am firmly convinced that purely business considerations would very soon awaken in the minds of the British banks, whose business is largely Indian, ideas of mutual co-operation on a friendly basis, in place of their present warlike mentality and challenge to India to come and fight it out. Should this development occur, the door is kept open under my scheme, but I would like to indicate very briefly the difficulties and obstacles from either side.

244. For a bank, whose activities are largely Indian, the wisest course would be to come under the Indian registration, to convert the sterling into rupee capital, and to transfer the head office to India. It is true that the majority of shares in such institutions would, under the proposed restrictions, have to be in Indian hands. Their existing shareholders would have to make a business decision. They may as well realise from now that their 'goodwill' is not only a wasting asset, but, in the next few years to come, would be a dead asset. They would have to weigh up, whether it would not only be better for the bank to retain all its business and its connections, but to substantially add to them, by attracting deposits and business of those foreign banks who could not or would not come under the Indian registration and by availing itself of all privileges and inducements, which are going to be reserved for Indian banks. The choice would lie between taking deposits and rediscount facilities in London or in India. They would have then to decide whether splitting up their shares and retaining 40 per cent. on the basis of assured and increased profits, would not be better than their present holdings in enterprises, whose oncoming doom, even a tyro could see.

I do not believe for a moment that a scheme of this kind could not be devised, which would be fair and just to all parties concerned. I had as a matter of fact prepared a scheme dealing with many practical points, which would arise in the course of an operation of this kind, but as I noticed apathy on the part of representatives of British banks to all such notions, I have not discussed it with my colleagues or set it out in detail in this report. The principle, however, still stands. Both for India and England, it would be a better and safer line of advance. It would be a pool of local knowledge, local privileges and local capital, with accumulated experience and technical skill, and it would be a friendly sharing out of profits. It would be a method of joining hands in a form dishonourable to neither and profitable to both. It would be the avoidance of competitive warfare with all its accompaniment of bitterness and inevitable incidents of hostile propaganda for boycott, demonstrations and picketting.

245. Since the initiative for any development on lines indicated in the previous paragraph must come from those, who hold the field at present, so long as it does not come, the next best line of advance may be considered. In this it would appear that the views of the Committee are unanimous, so far as the principle is concerned. One school of thought does not desire anything to be done, until the Reserve Bank is established. After this the Imperial Bank is to take a hand in the game if they will, and the Reserve Bank is to see whether, during a period of five years, they have succeeded in getting a substantial percentage of foreign exchange business. If their progress on these lines is not considered satisfactory, the scheme for an Indian institution is to be launched. Indian joint stock banks and the Indian public are to be given an opportunity for subscribing shares, but the State must take over all unsubscribed capital. The second school of thought in the Committee desire (as far as I could gather from the discussion) that such an institution should be set up within the next three years, whether the Reserve Bank is there or not, and without any reference to the Imperial Bank. They also desire that the capital of this institution should be held by the State. Apart from this difference in the manner of the initiation of the institution and the time, there did not appear to be any difference as to the lines on which the new institution would operate. It seems to be the unanimous feeling that such an institution should receive a monopoly of Government remittance work, ample finance from the Reserve Bank and that it should work in close co-operation and under the direction of the Reserve Bank.

246. It was clearly stated that, though it should start as a State institution, it should cease to be a State institution at the earliest possible moment, when the atmosphere was cleared for the growth of Indian enterprise. Will the atmosphere ever be cleared? Can such an Indian institution take over more than a fraction of the total work at present done by the eighteen foreign institutions?

Will it cripple the power of foreign banks, or reduce their resources? Will it lessen their ability to hurt Indian institutions? Will it increase their goodwill and create a desire on their part to allow Indian institutions to grow, and will it reverse the ordinary principles, which alone British banks in India have understood with reference to Indian banks, *viz.*, the principle of warfare in the business field?

The other difficulties may be considered. There is more than ordinary danger of the scheme for this institution being put on the shelf on the plea that the State cannot spare the money for this object. Even when the institution is launched, the new enterprise will find itself in difficulties, if the Reserve Bank Board are unfavourable to it. Will the Board of the Reserve Bank be such, that they would support this institution, which would be called into existence, with the deliberate idea that India should not be dependent on foreign banks for its foreign exchange business? Will the management of such a bank be in business hands, or will it copy the model of existing commercial departments of Government, like railways, post offices, military workshops, which have managed to keep businessmen miles out? Will the taxpayer agree to bear the loss, which such an institution must make, because the older foreign institutions must make a fight for it? Will such an institution confine its activities to the sterling market, or will it invade the Dollar exchange, the Yen exchange and the Continental exchange? In that event it will have to have funds and connections, which will take time, but the charges for the establishment would have to be borne from the start. In order to sustain an institution of this kind in the sort of contest, which it will have to meet, many privileges for it will be wanted, including that of the monopoly of Government remittance.* Will the legislature pass the scheme as a whole, or will they curtail essential parts including this monopoly? On the reply to some of these questions would depend the success of such an institution.

247. Will the measure taken lead to foreign institutions amalgamating amongst themselves and eliminating duplication, thus effectively increasing their power of hitting Indian banks or defending themselves against the new privileged institution? The adoption of such a measure without the restriction against Indian deposits going into foreign banks, is doomed to failure, as it leaves in the hands of the foreign banks two weapons, *viz.*, the resources, the working capital and all their Indian connections and the means of earning profits from internal banking. If their profits on exchange business are as low as was indicated and if they are relying for their earnings largely on what they are making in the

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* Such monopoly will not be much use, if it is hedged round with a clause, that no profit will be made on remittances purchased in the open market in its capacity as agent. So long as the institution is a Government institution, this is an unimportant question, and the taxpayer will have to find the money for any losses incurred. A concession must be real, if it is to enable the institution to face the ring of foreign banks.

interior,† a share of the foreign exchange business taken from them is not going to reduce the menace, which they offer to Indian institutions at present.

I have not before me the whole scheme as framed by the group, which has sponsored this project. While the success of the institution is conditional on many factors, some of which have been stated here, it will mean two things: to the existing eighteen banks engaged in foreign exchange business, will be added one more, which will materially affect the profits earned in India by the foreign banks in proportion to their Indian business. Even if it should take more than the average share of the total, no material exists in hand at the moment to indicate whether such a share could go beyond 10 or 15 per cent. of the total. If any one expects it to exceed 15 per cent., it would be on the basis that not only Indian business, which is now going to foreign banks, will be wholly transferred to it, but that such a new institution will be able to attract the non-Indian custom. Will it offer facilities in India and outside comparable to the facilities, which foreign banks are at present offering? It would seem, therefore, that only a fraction of the total business is thus to be secured by a measure, which involves the use of two very powerful weapons, *viz.*, State capital, which is in effect the same as the taxpayer being made responsible for the loss, and monopoly of remittance business. Opposition from the foreign banks may be expected on both these grounds. So far as the first is concerned, the British banks have, it may be said, built their fortress not wisely, but too well. They have so impeded the attempts of Indian institutions to enter into this business, when such an attempt was made on a moderate basis, that they have steeled Indian opinion in this direction and called forth the use of extreme measures. It is on the basis that a field, which has become dangerous for private enterprise and for private capital, has got to be opened out, and the public issues involved are of sufficient importance to bring the taxpayer in. I should like very much to anticipate the arguments of the foreign banks against the concentration in one hand of the remittance business, on the plea that it would be a monopoly. These banks have enjoyed an effective monopoly in the past and have successfully kept out of it the Presidency banks. They have bent for their purposes both the Government of India and the Secretary of State, and nearly got, in the first Reserve Bank Bill, a Reserve Bank, which would also have been not their master, but their servant. It would not, therefore, lie in the mouth of institutions, which have enjoyed

† "I attribute this reduction in profits chiefly to the suicidal competition that continues between Exchange Banks in India. I referred to this competition last year and said that, after taking into account brokerage and heavy expenses, the margin of profits on our exchange operations was disappearing; and I regret to say that, as the result of the past year, I can see no improvement in the position which is such that, but for our local business, we would lose very little by declining to do any exchange business." —(Chairman of the Mercantile Bank of India, Annual General Meeting, 1929.)

such monopoly in the past, to oppose on this ground a measure, which the Indian legislature might consider necessary.

248. The other consequence would be that the entry of Indian enterprise in this field, which is already a matter of very serious difficulty, would be beset with even greater obstacles. This aspect of the question has impressed me very greatly and I would, therefore, venture to suggest, that in any measure, which may be ultimately adopted, the ways and means and the period of time, by which the change-over would take place to Indian private enterprise, should be definitely provided. My colleagues, who put forward this measure, did so, on the basis that it is not normal and proper for the State to engage in an activity of this kind. They had also agreed that after five or ten years, or at a suitable opportunity, such an institution should cease to be a State institution. I would like the issue to be taken a little further and suggest that at the earliest opportunity the monopoly, which may be given to such an institution, should be broken up in favour of, and should be shared by, Indian institutions coming forward and desiring to engage in this work.

249. The need of a separate institution to deal with exchange business also belonging to the State, as would the Reserve Bank, and working under the aegis of the Reserve Bank, has to be examined. The Reserve Bank will have powers to enter the exchange market not merely at gold points, but at any point. It would so enter normally even according to the foreign 'experts'. In order to build up its own stock of foreign currencies, it would have to enter the market and keep in the market continuously in order to better control it and in order to give less shock to it by its sudden entry.

The question of profits does not enter into the question as both would be Government-owned. The only additional function, which the State exchange bank would have over the Reserve Bank, would be that it will compete with other exchange banks, not merely for bills and remittances, but for deposits, not merely in external trade, but in internal trade. The central banks in some other countries do not so compete, because those countries have got separate banks to do this kind of business. India has got no banks of her own in this field and if the Reserve Bank were to compete, the heavens would not fall. The competition by another limb of the State and the competition of the Reserve Bank would have in practice the same effect on those, who will have to meet that competition. There would, however, be a duplication of machinery and it must be carefully considered, whether it would not be feasible to give the Reserve Bank the additional powers and to work the exchange business, not merely in the maintenance of the gold points, but otherwise, through a department of the Reserve Bank.

Having regard to all this, I am convinced that it is desirable to work the foreign exchange business through a department of the Reserve Bank, whose accounts of this business will be kept separate, to be amalgamated with the final accounts at the end of the year, and whose reserves in this direction would be built up separately to meet any losses and contingencies arising in its operations.

250. I make this suggestion with an eye to the future. I think private enterprise should not be shut out from this line. As and when an Indian institution is ready, it should be allowed to emerge under conditions, in which it will prosper. It should be allowed to share in this business to the extent, to which it could share and when a sufficient number of institutions are on the scene in this manner, the Reserve Bank should approximate to the model in other countries, where the central bank concentrates on its own functions, leaving the task of the finance of foreign trade in the hands of specialised institutions. There must be this outlook, that ultimately this has to be done not by State agency, but by private agency. Without that outlook, I see the result that, whereas a State institution, being the nineteenth bank in the field, may succeed in doing business of greater volume than the most prosperous foreign bank, such share, which may be put at anything from 10 to 15 per cent. of the total on a most optimistic basis, will only reduce the quota going into any foreign institution. It will, however, make the competition in the field much more intense than it is now through an inevitable rate war and render the entry of an Indian institution absolutely impossible. If this bank is, therefore, established as a separate institution, some indication should be given as to how and when Indian institutions willing to enter the field are to be assisted, how they are to be secured against the competition of the foreigners and when the conditions would be ripe for Indian private enterprise to get in vis-a-vis powerful foreign rivals and this State enterprise.

251. I have urged an examination of this question on these lines, because, the line of advance, which I conceive safest for India, is the creation of more favourable conditions for Indian private enterprise. The increase of the scope for Indian enterprise is to be secured by eliminating everything abnormal in the situation. The provision enabling the Reserve Bank to act as their agents abroad, which I have recommended, will to some extent supply the deficiency now felt. The improvement of general health of Indian banks in the internal field will react greatly on their desire to engage in this field. They have evinced such a desire in the past, but have been deterred by the solid phalanx and the ring of foreign interests, which they were called upon to break through. As soon as the position is improved, I have no doubt that Indian enterprise will come on the scene. The suggestion, that Indians have no enterprise and would not venture to come on the scene, is a malicious libel. It gives more than ordinary scope for pride and jubilation, that in spite of so many deterrent factors not only in banking, but in many other fields, Indians have not given up hope and have shown courage as well as capacity. They were not unaware of the unfortunate experiences of their predecessors, but they were undaunted. Granted reasonable conditions and the creation of opportunities, Indian enterprise is sure to raise its head, even in this charmed circle of the business of the foreign exchange.

CHAPTER XVI.

THE IMPERIAL BANK OF INDIA.

252. The Imperial Bank deserves a chapter by itself. Its position is exceptional. In India it has the biggest share capital and reserves.* It has the largest number of branches. It is an all-India bank in the true sense of the word. It has prestige and dignity as Government bankers. It has the use of Government funds and special privileges in connection with remittances. It plays an important part in the matter of the administration of the public debt generally, and at the time of the flotation of new loans, as well as treasury bills. It can borrow from the currency reserve under certain conditions. It keeps the balances of other banks and it is the institution, to which other banks look for assistance. It has important relations with indigenous bankers of the Shroff, Chetti, Multani, Marwari and other kind. Sir Basil Blackett described it as " a hybrid institution trying painfully to combine incompatible functions ".†

I am of opinion, that the question of the Imperial Bank deserves close attention, because it is a great interest and it is a vested interest. As a vested interest, it is not viewed with favour. On many occasions, either after or before amalgamation, it could have helped other institutions at a slight cost, or inconvenience to itself. But it has acted in many directions in a truly imperial fashion. Not only in its relation to joint stock banks and co-operative banks, were complaints placed before us, but in other directions also in the past, discrimination against Indian interests by the Imperial Bank has been suspected. It was to refute such complaints, that the Managing Governor of the Imperial Bank gave before the Royal Commission on Currency in 1925, figures of the advances to Indian firms and to European firms. The attack on the Imperial Bank as discriminating against Indians, did not, however, abate. I find it stated in the following terms in the separate minute appended to the External Capital Committee's report by Mr. T. C. Goswami:—

" I should like to express the common belief,—for which I know there is a good foundation in actual facts,—that racial and political discrimination is made in the matter of credit, and that Indians usually do not receive in matters of credit the treatment that their assets entitle them to, while, on the other hand, British businessmen have frequently been allowed larger credit than what on ordinary business principles they ought to have got. This is a matter for inquiry."‡

253. Who is to make this enquiry? The Central Banking Committee could not. The non-Indian majority of Imperial Bank shareholders would not. Can the Indian public expect such an enquiry

		Rs.
* Capital	. . . .	5,62,50,000
Reserve	. . . .	5,40,00,000

† Address before Delhi University, 1926.

‡ Page 24, External Capital Committee's Report.

from four Indian nominees of Government, some of whom are septuagenarians, on the Central Board? Whatever the method and work of the Imperial Bank is, it must continue undisturbed, since there is no provision in law to secure an effective Indian majority in its control.

In his evidence before the Central Banking Enquiry Committee, the Managing Governor took pains to point out the number of industries, to which assistance has been given, and to refute the suggestion, that industries in India did not receive assistance at the hands of the Imperial Bank. Specific complaints came to us in connection with the loans given out by the Imperial Bank to tea gardens, such loans being confined to four English brokers, through whom alone the Imperial Bank acted. The fact that the superior staff of the Imperial Bank is wholly English, may be at the root of this feeling widely held, and this feeling holds an important place in Indian public opinion. The fact of the existence of Indians in the Central and Provincial Boards does not appear to have made serious impression on the adverse feeling in Indian circles.

254. In order to view in their correct perspective, facts behind such public opinion, it is necessary to consider the foreign holding in the Imperial Bank. Before the amalgamation it was possible to ascertain whether the Indian shareholders predominated, or a large part of the shares was in foreign hands.

It has not been possible since the amalgamation but casual guess in financial circles put foreign holdings at 60 to 75 per cent. at different times. In reply to a specific query on the subject by me, the Managing Governor of the Imperial Bank gave us the following figures:—

Share Capital of the Imperial Bank of India on 17th May 1930.

	Rs.
Indian	2,78,08,250
Non-Indian	2,84,41,750
TOTAL	5,62,50,000

While there have been rather wide fluctuations in the value of the Imperial Bank shares since, all sorts of stories are going about, one set indicating that Indians have sold out, and the other set indicating that the Europeans were withdrawing their capital from India. What the proportion of the holding will be at the present date, it would be difficult to say. How much of the holding in Indian hands is trust holding, and not of their true ownership, is again a question, which cannot be answered. It is a very important question of policy, whether the premier banking institution in the country should have a preponderance of foreign shareholders. It is doubtful whether the principle already accepted by the legislature and the Government of this country, that, where an institution receives financial help, directly or indirectly, from the state, it should have a preponderance of Indian Directors, is

altogether realised in the case of the Imperial Bank, where the controlling interest is certainly foreign, and I consider that, without any delay, the position should be examined and the necessary alteration brought about, either by negotiations between the Government and the Imperial Bank, or by a change in law, by which the controlling interest shall become Indian. It is only after this is done, that Indian public opinion will be persuaded to credit the *bonâ fides* of the Imperial Bank acting in the interests of Indian agriculturists, Indian merchants, and Indian industrialists, wherever such interests conflict with foreign interests. The existence of such confidence in the Imperial Bank is very necessary, if the Bank is to continue to perform important functions, which it is performing, some of which it may be still entrusted with, even after the establishment of the Reserve Bank. It is not, therefore, on grounds of sentiment and prejudice, but on strictly practical banking grounds, that I recommend this to be done. It would undoubtedly come within the general regulation against controlling interests in any banking institution in India being retained by foreigners, but, if there is going to be any delay in the adoption of that general regulation and the passing of the necessary legislation leading thereto, there need be no delay with regard to the application of the principle in the Imperial Bank, where its need is imperative.

255. The following statistical information is available with regard to the Imperial Bank:—

I.—*Capital, Reserve, Deposits and Cash Balances of the Imperial Bank of India.*

(In lakhs of rupees.)

31st December.	Capital.	Reserve and Rest.	Government or Public Deposits.	Private Deposits.	Proportion per cent. of Government Deposits (column 3) to Total Capital and Deposits (columns 1 to 4).	Proportion per cent. of Government Deposits (column 3) to Private Deposits (column 4).	Cash Balances.
	1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Per cent.	Per cent.	Rs.
1922	5,62	4,33	14,16	57,00	17·4	24·8	15,07
1923	5,62	4,55	8,57	74,19	9·2	11·5	15,01
1924	5,62	4,80	7,50	76,71	7·9	9·9	15,60
1925	5,62	4,93	5,46	77,83	5·8	7·0	17,47
1926	5,62	5,09	6,45	73,90	7·1	8·7	20,90
1927	5,62	5,24	7,20	72,07	8·0	10·0	10,89
1928	5,62	5,39	7,95	71,30	8·9	11·1	10,57

II.—*Figures of public and other deposits, loans, etc., of the Imperial Bank of India in the last week of each half year from 1921.*

(In lakhs of rupees.)

	Public Deposits.	General Deposits.	Loan from Paper Currency.	Banks' Investments.	Loans.	Cash Credits.	Bills.	Cash.	Percentage.	Bank rate per cent.
1921.										
March	5,31	72,19	...	13,17	16,38	22,34	9,62	22,06	23·32	6
September	8,50	83,15	...	15,77	28,80	23,18	8,03	29,71	31·70	5
1922.										
March	20,08	57,08	2,00	10,32	18,11	29,14	9,02	20,48	25·47	8
September	13,36	72,19	...	10,04	17,94	26,72	4,22	36,73	41·34	4
1923.										
March	20,53	53,62	...	9,49	18,79	31,30	8,86	14,44	18·98	8
September	15,69	78,89	...	12,70	13,15	30,55	4,71	39,40	41·18	4
1924.										
March	26,02	71,21	12,00	11,82	27,71	43,07	5,39	13,20	16·49	9
September	24,23	73,58	...	16,78	16,13	37,67	15,78	28,30	28·61	5
1925.										
March	26,14	69,52	8,00	10,02	24,99	24,99	8,67	19,34	18·44	7
September	9,07	78,90	...	16,19	13,97	28,15	15,59	31,98	35·95	5
1926.										
March	19,39	73,77	...	15,97	17,87	35,82	6,08	25,23	26·85	6
September	19,20	81,48	...	20,52	11,84	21,09	4,95	50,39	49·63	4
1927.										
March	22,35	67,30	3,00	20,54	18,49	34,12	7,69	18,80	30·34	7
September	12,85	71,61	...	21,53	10,92	23,72	5,98	30,37	35·64	5
1928.										
March	4,91	73,08	7,00	21,72	12,25	31,50	15,91	11,67	13·60	7
September	6,91	71,96	...	23,19	10,84	25,30	4,30	23,47	29·46	5
1929.										
March	5,92	71,70	2,00	21,89	10,94	32,43	11,64	10,84	13·46	8
September	20,04	69,64	...	32,77	8,50	22,99	3,48	30,82	33·84	5
1930.										
March	20,11	70,01	...	30,19	10,05	31,74	7,52	10,18	21·00	7
September	13,18	75,01	...	23,85	17,45	28,66	2,41	25,61	28·32	5
1931.										
March	11,92	70,43	...	29,74	12,11	29,33	5,32	13,33	15·90	7

In the growth of many of the banking institutions, that now hold an important place in the world, the foundation of note issue may be traced. In India it is traceable only in the case of the three Presidency Banks, which ultimately became the Imperial Bank. It would be nearly a century, during which the Imperial Bank, or the units which now compose it, have enjoyed a privileged position. From 1839 to 1861 it had the right of note issue. Thereafter it had, in addition to the prestige attached to it as Government bankers, access to state funds. Government agreed to keep certain minimum balances with it free of interest, which could not be withdrawn. Subsequent reforms in this direction enabled it not only to have, since its amalgamation, the whole of the Government balances, but also, by improvement in the system of currency chest, to get in its hands Government money much quicker, as it came in.

256. These reforms, which placed unused state funds in the hands of a banking institution and, through it, sought to make them available to the trade, were undoubtedly in the right direction, but the other side of the shield has to be examined from the point of view of the Imperial Bank. This system placed this institution practically in a position, where on occasions the usual banking necessity and obligation of maintaining cash was either eliminated, or considerably reduced. The following statement of public deposits, loans from currency reserve, and the cash balances of the Imperial Bank throws some light on the subject, though since the figures are confined to certain dates only in the year, they have to be interpreted with some caution.

(In lakhs of rupees.)

	Government deposits.	Loans from Paper Currency.	Cash.†
	Rs.	Rs.	Rs.
1921—			
31st March	5,31	...	22,06
30th September	8,50	...	29,71
31st December	6,80	*	13,60
1922—			
31st March	20,08	2,00	25,47
30th September	13,36	...	41,34
31st December	14,16	*	15,07
1923—			
31st March	20,53	...	14,44
30th September	15,69	...	39,40
31st December	8,57	*	15,01
1924—			
31st March	26,02	12,00	13,20
30th September	24,23	...	28,30
31st December	7,50	*	15,60

* Figures not available.

† Including cash out of banks' deposits shown in para. 255.

(In lakhs of rupees.)

	Government deposits.	Loans from Paper Currency.	Cash.†
	Rs.	Rs.	Rs.
1925—			
31st March	26,14	8,00	19,34
30th September	9,07	...	31,98
31st December	5,46	*	17,47
1926—			
31st March	10,39	...	25,23
30th September	19,20	...	30,37
31st December	6,45	*	20,90
1927—			
31st March	22,35	2,00	18,80
30th September	12,85	...	30,37
31st December	7,20	*	10,88
1928—			
31st March	4,91	7	11,67
30th September	6,91	...	23,47
31st December	...	*	...
1929—			
31st March	5,92	2	10,84
30th September	20,04	...	30,82
31st December	...	*	...
1930—			
31st March	20,11	...	19,18
30th September	13,18	...	25,61
31st December	...	*	...
1931—			
31st March	11,92	...	13,33

The cash position of the Imperial Bank has to be watched, because this is the cash, to which everybody in India looks up for relief, and it is the barometer, which explains and justifies changes in the bank rate, except where they are made for currency reasons. The position may be compared as follows:—

	Cash.	Percentage of cash to Liability.
	Crores.	
March 1926	25·23	26·85
March 1931	13·33	15·9

While the cash position of the Imperial Bank deteriorated, that in the case of the Bank of England during the same period improved from £23,580,467 to £53,927,188 and from 19·7 per cent. to 49·6 per cent.

* Figures not available.

† Including cash out of banks' deposits shown in para. 255.

257. The table given in paragraph 255 indicates the deposits of the Imperial Bank. The figure of private deposits must include considerable sums of quasi-public deposits, such as, from company-managed railways, Indian States, municipalities, port trusts, and other public authorities, a class of deposits, in the receipt of which, it is possible, the Imperial Bank does not have to meet the competition of other banks. The total figure of these private deposits since 1923 has remained the same, or shown a slight diminution in spite of the increase of many branches which should have led to increase of deposits. There is a factor, which will have to be examined in connection with these particulars, *i.e.*, whether this figure includes also deposits in London, and whether the figure of London deposits is now higher than it was in 1923.*

To the extent, to which there is an excess of deposits in London in 1931† over such deposits in 1923, the Indian deposits of the Imperial Bank may be said to have gone down. I am sorry we were not able, by definite figures, to ascertain this fact. I regard this fact as having a very important bearing on this subject, because it would be very significant, in comparison with the deposit figures of foreign banks. Has it something to do with the progressive reduction in the deposit rates established by the Imperial Bank? Or is it a definite setback to the premier banking institution in India on account of foreign institutions having hit it. The proportion of cash and reserves to deposits in the Imperial Bank is much higher than that in several Indian joint stock banks and the foreign banks operating in India, and in the large banks in the United Kingdom. This may be due to the fact that the Imperial Bank gives no interest on current account, and its rates for fixed deposit account are lower than those offered by other banks in India, either foreign or Indian. The pressure of foreign

* *Imperial Bank of India.*
(Resources in London.)

(000's omitted)

—	1921.	1922.	1923.	1924.	1925.	1926.
	£	£	£	£	£	£
London Deposits	35	168	738	1,243	1,016	857
London Advances	343	738	434	929	1,098	861
Cash and Bank Balances in London.	45	23	343	369	47	49
Total Assets (Rs.)	82,83,53	82,19,00	1,01,22,01	96,93,90	94,18,60	91,31,64

(" The Imperial Banks," by A. S. J. Baster, page 218.)

† In recent weekly statements London deposits have appeared at much higher figure such as £6,000,000 and £4,000,000.

banks may, however, compel the Imperial Bank before long to alter its policy with regard to interest on current account and to alter its rates with regard to fixed deposits, if it is established that the total volume of deposits in the Imperial Bank is declining.

The next point, which arises from the statistical data, and which deserves attention, is as follows:—

	March 1921.	March 1931.
Bank's investments	13·17	29·74
Loans	16·38	12·11
Cash Credits	22·34	29·33
Bills	9·62	5·32

The increase of the Bank's investments, which can be only in authorised securities, could not have helped trade and industry, and the bulk of it must have gone in Government finance in various forms. The reduced quantity of bills and the increased volume of cash credit is an illustration of the tendency deplored by our Committee as a whole, and for the counteraction of which, various measures have been suggested. We had not enough material before us to enable us to examine the complaint, that the Imperial Bank had reduced loans to industry, and it is difficult to say whether the reduction in the figure of loans is wholly accounted for by the suggestion, that the reduction in the level of prices reduces the amount of loans, or whether it lends any justification to the abovementioned complaint. The fact, that the loan figure comprises loans to banks as well as to trade and industry, makes it difficult to draw inferences from it against the complaint.

258. The following are the figures of the annual net earnings of the Imperial Bank since the amalgamation:—

	Rs.
1921	1,20,32,449
1922	1,16,40,805
1923	1,25,14,507
1924	1,27,87,056
1925	1,09,76,682
1927	1,10,96,961
1928	1,11,98,657
1929	1,05,58,996
1930	1,01,72,818

The following comment on this position from a leading stock exchange firm throws some light on the position:—

"It will be seen that they show an almost continuous decline, the earnings for 1930 being the lowest in the short history of the Bank. Although the decline in trade and in commodity prices must be taken into consideration, the reduction in the net earning power cannot be considered as other than unsatisfactory. The Bank is in the enviable position of having to pay no interest on the bulk of its deposits. If this was not so, we are afraid that shareholders would have to go dividendless. It is very fortunate also, for the shareholders, that the decline in trade and in commodity values has

not brought down the level of money rates in this country,—as it has in most, if not all, others.

"We are afraid that the Bank's last annual report would have made very poor reading, had the Bank Rate averaged less than 5 per cent. throughout the year as it would have averaged, had the exigencies of the exchange position not necessitated artificially tight money conditions.

"We believe that in the early years of the Bank's existence the cost of opening new branches was debited to profit and loss account. This expense has now ceased but there is no corresponding improvement in the disclosed profits and no apparent benefit is obtained from the working of the two hundred branches throughout the country."*

259. The proportion of current to fixed deposits in the Imperial Bank is not known, but, it must obviously be considerable.† This is an advantage, which the Imperial Bank has, which joint stock banks do not enjoy, though it is not known to what extent it is counterbalanced by the restriction, under which the former has to work.‡ I regret, we had no means of finding out, whether the Indian banking system as a whole, including the Imperial Bank, was receiving a setback, or of analysing the causes of this and ascertaining whether this setback was temporary, or was going to be permanent. In the past the foreign banks admitted competition with the Imperial Bank, and the Imperial Bank complained of such competition. If this was so, the commercial prospects of the Imperial Bank could not have improved by the entry of a larger number of banks, or by the increase of their operations at ports and interior branches. The Imperial Bank is regarded as being amongst the well-managed banking institutions in India, and, other things being equal, if there are factors affecting the Imperial Bank's earning capacity, the earning capacity of Indian joint stock banks generally must be also seriously affected by them.

The constitution of the Imperial Bank of India.—From the point of view of the Indian public, the constitution provided by the Imperial Bank of India Act is very defective. It cannot be said to have secured public confidence. The working of its constitution, which gave power to Government to nominate several

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*Report of Messrs. Forbes and Lund, dated 24th February 1931.

†"Since the inauguration of the Imperial Bank in January 1921 its savings bank deposits have increased from 4,12 lakhs to a figure of 10,79 lakhs on the 31st March 1925."—(Sir Basil Blackett's address before the Delhi University, 1925.) Later figure was not available.

‡ *Chairman.*—Could you amplify that a little by telling us which of these constitutes a real practical limitation upon what would be the ordinary current business of an unrestricted bank and to what extent it imposes a real practical limitation of such business?

Mr. Norman Murray (Joint Managing Governor of Imperial Bank).—To begin with, the restriction on exchange business debars us from what is a very profitable business. Outside that the restrictions do not put us to any very great difficulty.

(Question No. 9549, Royal Commission on Currency, 1925-26.)

members of the Central Board, has not eliminated the complaint regarding the discrimination used by the Imperial Bank against Indian businessmen. It has not satisfied public opinion, that even when efforts are being made to Indianise the superior staff of the Imperial Bank, it is at a rate, which is possible, and which would have been adopted, if the Indian element in the Central Board had been either adequate, or had shared public sentiment in this direction. No useful purpose will be served by considering its constitution, or the reforms required to bring it in line with the needs of the country, as the Imperial Bank Act must be repealed as soon as the Reserve Bank is established, and the Imperial Bank would then have to operate as a joint stock bank.

260. It was necessary to refer to the unsatisfactory character of the constitution, because, Sir Osborne Smith, in his letter to the Committee, dated 24th February 1931, developed the idea of getting over the difficulties with regard to the constitution of the Reserve Bank by utilising the Imperial Bank, the trading portion of the activity being handed over to reconstituted Presidency Banks. According to him, " an added advantage in constituting the Imperial Bank, the Reserve Institution is that a ready made commercial directorate comprising the foremost brains, both Indian and European, and subject to shareholders' sanction would be available, thus removing the contentious rock on which the previous Bill crashed. The Board would be completed by Government's nominations to represent sectional interests ". The Board, as it is, has not pleased Indian opinion, even in the management of the Imperial Bank. The presence of non-Indians would be opposed to the spirit and practice of the law in connection with central institutions in most countries.

The question of the constitution of the Imperial Bank arises, not merely in connection with larger facilities to Indian businessmen, so long as the Imperial Bank continues to function as it is. It is of importance with regard to the future operations of the Imperial Bank, as to the directions, in which they will work, but the main question is the topic of Indianisation of the staff. European recruitment was continued everywhere, since the inception of the Imperial Bank, though, we were told, that for the Bombay circle during the last year, no new European appointment was made. The idea of an Indian Managing Governor, which I raised in the course of the examination of Mr. MacDonald, was not appreciated. It was considered to be a matter entirely for the Bank, *i.e.*, for the shareholders and directors to decide. The idea was regarded with the same amazement, as the idea of an Indian Commander-in-Chief, and it was evident that only an Indian, who rose from the ranks, could be eligible in due course for such a position. My curiosity as to who the seniormost Indian in the Bank's employment now was, and how many years it would take for him to be even considered for the first place, was not satisfied, and no reply on this point was vouchsafed.

261. *Branch extension.*—I consider the method of extension of banking by encouraging the establishment of branches by the Imperial Bank as most costly. It would have been criticised much more than it has been, had not the contract with regard to the obligation of opening one hundred branches, been part of the general contract, and thus mixed up with considerations other than those, which were applicable to branch extensions. The Imperial Bank had difficulties, or showed that it had difficulties, in carrying out this programme in the beginning. One still hears that if the Imperial Bank is not given any privileges, they will withdraw some of these branches.*

Which, and how many branches, are not paying at present, was not disclosed in our enquiry. The special contract in this direction, which was being rushed at the time of the introduction of the Reserve Bank bill in 1927, was not advantageous to the tax-payer, or to other joint stock banks, or to the public. It need not be discussed, as the occasion for special terms and special concessions does not now arise, the period of agreement with the Imperial Bank having come to an end. Before new terms are given to the Imperial Bank with regard to branch extension, it would be necessary to examine statistically and financially the amount of sacrifice, if any, which it has been called upon to make in setting up a branch, the suitability of the standard of expenditure, which it has adopted for branches, and many other like questions. The Committee was agreed generally, that the provision for branch extension should be left to the Reserve Bank, and the benefit of such provision should be available, not only to the Imperial Bank, but to other banks.

It is claimed, that the Imperial Bank has brought down remittance charge, which was prevalent in the interior. It is also claimed, that the establishment of their branches in several centres has reduced the charge, which the business community have to pay on loans.† This is the justification given against the complaints of the Indian joint stock banks against such competition, but it is important to examine how far, on account of restrictions in the class of business, which they were able to transact, the Imperial

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* "In the absence of some compensation, the Imperial Bank would obviously close down the branches which would not be worked at a profit and the compensation should reasonably be something more than would cover the net loss on the working of those branches."

"I have no doubt that it would be bad for banking in India to let the Imperial Bank shut down all its branches on account of any unfair or cheesparing policy adopted by the Government."—("Indian Finance," Special Banking Enquiry Number, in the article on the Imperial Bank of India.)

† I find that it was stated in evidence before the Currency Commission that when the Imperial Bank came and opened branches at places, where the Allahabad Bank was working, the Imperial Bank immediately formed a contract through its brokers for the purchase of a large quantity of Hundis payable on demand at rates which could not pay the other banks.

Bank act as a conduit for drawing away funds from the district, where they take deposits. The withdrawal of such funds cannot but have a tendency to increase prevailing rates. The material placed before us does not permit a close examination on this point, but the feeling that the Imperial Bank in particular, and possibly some of the joint stock banks, are using their branches more for the purpose of collecting deposits and withdrawing them, than for the purpose of financing the needs of the district, from which deposits emanate, was reflected in more than one Provincial Committees' reports.‡

262. *The relation of the Imperial Bank with foreign banks.*— There is much historical evidence that the Presidency Banks and the 'Exchange' Banks had occasions for mutual jealousy and rivalry. For so many years, the foreign banks were intolerant of the Presidency Banks, who had privileges in India. It was, therefore, usual in official and other despatches of those times to say, that the Presidency Banks' sphere was internal trade, and foreign trade was the sphere of the 'Exchange' Banks. The 'Exchange' Banks did their level best to keep the Presidency Banks out of the field of the foreign trade. The Presidency Banks were unable to increase their privileges, and get restrictions on their exchange business removed, in spite of the fact that the Government of India backed them, because of the influence, which British banks had, direct with the authorities at Whitehall. This was notwithstanding the complaint of the Presidency Banks, that the 'Exchange' Banks engaged in internal business, a complaint, that was not denied and was definitely admitted before several commissions of enquiry.

The predecessors of the Imperial Bank, having secured an outstanding and unassailable position in the Indian banking system, were very watchful of any developments, which might affect them. It is to their credit that they have never missed the chance of adjusting themselves to a new situation, no matter what it was, and of safeguarding their own interests. This will be seen from the

‡ The Bombay Committee have also suggested that banks collecting deposits in the mufassal should also keep in view the internal trade needs of the locality. For this purpose, periodical statistics regarding the total deposits received and the total advances made by different banks in different areas should be collected and published by the Central Banking Institution. —(Bom. para. 164.)

In the absence of statistical information, it is not possible to say with any reasonable certainty how much of the amount collected by way of deposits is invested by these banks locally; but the general trend of evidence suggests that in most cases the local investments are much less than deposits. They shun the agriculturist even more than the indigenous banker. None of them finances local industries."—(Report of Central Areas Committee, page 371.)

Only a small portion of the amount collected as deposits by the Imperial Bank in these Areas is actually utilised by it for the purpose of financing local trade and industry; and as a result of opening branches of the Imperial Bank there is a marked tendency to divert a very large portion of local funds from local trade and industry to other provinces.—(Report of Central Areas Committee, page 374.)

following extracts from a circular sent out to the shareholders of the Bank of Bombay on the 1st December 1919.*

"It has been borne upon your Directorate that there is every probability that powerful banking interests in England, represented by the large London Joint Stock Banks, may at an early date obtain control of certain Indian banking interests, more particularly those of certain Indian Exchange Banks, and to combat this and to retain their prominent position it becomes absolutely necessary that the three Presidency Banks should consolidate by amalgamation . . . . . Your Directors are therefore, of opinion that failure to take advantage of the present opportunity to meet the undoubted public desire, by amalgamating the three Presidency Banks in an Imperial Bank of India might result in Government being forced to establish a State Bank on purely official lines and to withdraw their connection with the three Presidency Banks.

"The importance of the proposed Imperial Bank having a London Office hardly calls for any comment, suffice it to point out that the majority of the Dominion Banks and the great foreign Banks have London Offices which are greatly to their advantage, and the desirability of the contemplated Imperial Bank being placed on a similar footing cannot be overrated, the more especially as some of the Exchange Banks in India are not British in their interests and there is a considerable likelihood, unless India be linked up with London in a semi-official manner, that Japanese, American and other foreign financial concerns may obtain a voice in the monetary affairs of India to the detriment of both Indian and British interests, and, moreover, the advantage which is enjoyed by other Banks doing business in India of possessing offices in London having direct access to the Secretary of State in Council would be an undoubted asset."

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* The following quotations from Baster on "Imperial Banks" throw some light on the situation envisaged in the circular and on the state of public opinion in the United Kingdom:—

"The exactly parallel case of the attempted absorption of the National Bank of India by Lloyds and the consequent hurried amalgamation of the Presidency Banks is noteworthy in this connection" (page 226).

* * * *

"On 24th November, 1927, Commander Bellairs asked the Chancellor of the Exchequer whether he was aware that when the agreement for the amalgamation of the National Bank of India with one of the great London banks was ready for submission to the shareholders in 1917, the Treasury intervened and vetoed the transaction; and whether it was still the considered policy of the Treasury to oppose amalgamations between banks in Great Britain and banks in the Empire. The answer referred "my hon. and gallant friend to the reply I gave on the 7th July, 1925. . . ." For reasons which he will appreciate, I am not at liberty to make any statement as regards specific applications. . . . The statement of 1925, according to Mr. Churchill, does not apply to banking amalgamations in the Mother Country only, but is general in its effect. It reads: "Whilst I cannot forecast the recommendation of the Committee in cases not before them, I share the view expressed by my predecessor, . . . that further amalgamations with the larger banks would not in principle be regarded with favour by His Majesty's Government" (page 243).

When the emergency of the establishment of "a State Bank on purely official lines" arose in 1927, the authorities of the Imperial Bank were not slow in securing "a profitable partnership" with the proposed Bank. So far as the 'Exchange' Banks are concerned with the usual statesmanship, which has characterised British enterprise outside Britain, differences were never allowed to become acute, and it would appear now that there is a very close and friendly understanding between the Imperial Bank and the foreign banks. Whether such an alliance would seriously hamper the working of the Reserve Bank, when established, remains to be seen.

263. The Imperial Bank has been financing the foreign banks and acting as their bankers. The difficulties of the foreign banks during the war enforced a closer co-operation between the Imperial Bank, or its predecessors, and the foreign banks. The basis of co-operation thereafter has been the continued embarrassment of Government in the maintenance of their exchange policy. The more frequent use of contraction for maintaining the exchange, and of a high bank rate to support such contraction, and of extensive use of Treasury Bills to prevent remittance by 'Exchange' banks of funds in their hands, has brought the foreign banks working in India and the Imperial Bank as Government bankers, in much closer contact. It is said that the Imperial Bank acts as bankers' bank, and the following figures of cash balance by the various banks have been given:—

(In lakhs of rupees.)

Date.	Exchange. Banks.	Indian Joint Stock Banks.
	Rs.	Rs.
31st March 1928	3,20	81
30th September 1928	3,71	1,12
31st March 1929	3,28	81
30th September 1929	2,02	90
31st March 1930	1,88	81
30th September 1930	1,88	1,05

This table is interesting, but it does not take account of the fact, that the 'Exchange' Banks not only put their balances with the Imperial Bank, but have also overdraft arrangements. It is no use showing the deposits by some of the banks at any particular date, without showing the overdraft by some of them on the same dates. Otherwise it cannot be ascertained, whether there is any support to the central bank's cash position from these banks, or whether it is otherwise.

Besides, the reduction in the amount of cash by foreign banks with the Imperial Bank during the last two years, is striking. The Imperial Bank was recently obliged to change its hours of work, and, though the real reason had never been definitely declared, there is reason to believe, that it had something to do with the practice of some foreign banks, who were paying in their cash into an overdraft account overnight, to the prejudice of the Imperial Bank.

The Imperial Bank further acts as agents of most of the foreign banks in the interior, for collection of bills, cheques, and other class of business. It is further interested in the working of the clearing house, of which the foreign banks constitute in many places a majority. There appears to be practically a general understanding and a close fraternity between the Imperial Bank and the British 'exchange' banks, perhaps through the common nationality of the personnel. I could not help noticing the common outlook of the representatives of the British 'exchange' banks and the Imperial Bank in their evidence and on our Committee on most of the matters, that were discussed.

The fact, that the Imperial Bank is working under a special Act in India, has not thus created a severe divergence of aim, or any serious practical difficulties, between it and the foreign British banks and non-British foreign banks. This is in marked contrast to the mutual feeling between the Imperial Bank and the Indian joint stock banks as a class, and it is important to elucidate the significance of this in our report.

264. The Imperial Bank is the medium, through which provision has been made for the issue of emergency currency. In the absence of a gold standard, under which the increase and diminution of currency would be automatic, through the adjustment of bank rates and the price of credit, and the price levels in general commodities, the discretion remained with the currency authority as to the amount of currency to be issued. The seasonal nature of money requirements in India, and, in particular, the requirements of large cash, has been partly responsible for high money rates. These periods of stringency have often caused great inconvenience and loss to the trade and to the public. When the position became very acute, Government responded to public opinion and created a law for the issue of emergency currency under certain conditions. This was in the nature of a compromise between the desire and volition of a banking authority and those of a currency authority. Like all compromises, it has not satisfied either party. Nor has it appeased the public.

The question of emergency currency arises, so long as the Imperial Bank continues to occupy its present position, and the Reserve Bank is not established. The existing arrangements are not satisfactory. There is no obligation on Government to issue the emergency currency and the method, which Government's hesitation to issue it has assumed, is to refuse to issue below a certain rate. When Government's position in this regard was criticised severely, Government formulated the limits above certain rates, up to which they *may* issue. These limits were conceived on a basis, which Government considered safe for currency management. As Government have the power of deflation and have exercised this power frequently, any relief on the banking side, which they might give by the issue of emergency currency, could be nullified by deflation, and if relief is to be given at a heavy rate, the object,

which the relief is calculated to secure, *viz.*, to prevent the rate rising, is not achieved. In other words, credit structure in the country is subordinated to currency requirements, and trade and industry are sacrificed at the alter of what is conceived by Government as the supreme need of maintaining the exchange.* In other countries, either there is no limit laid down in law, or sometimes the state checks the central Reserve Bank in the issue of additional currency by insisting on the payment of a tax. The gist of these arrangements in other countries is that, if there is a reasonable security to offer, accommodation to the public should not be restricted. In India the arrangements about the amount of emergency currency usable at certain rates, putting the limit as they do on transactions, which cannot be kept secret, are calculated to create more stringency than to remove it.

The arbitrary rates and the arbitrary limits on amounts issued are not justified. If Government have any obligation towards the money market, those obligations may be properly discharged. The appearance of solicitude on the part of Government, that they are discharging their obligations, and the continued existence of the stringency, which has to be removed, have been misleading in the past.

265. Emergency currency is at present available only on bills, and to the Imperial Bank. It is not available to other banks directly from the paper currency reserve. It has been given out from time to time, that it is difficult to find sufficient bills eligible for this purpose in the portfolio of the Imperial Bank. It is also notorious, that rediscounting of bills in the portfolio of other Banks with the Imperial Bank is not a recognised practice. In fact no bank would venture on it without serious damage to its credit.† Notes are being issued by Government to an unlimited extent subject to the provisions of the Paper Currency Act. If there is difficulty about bills, against which notes are to be issued, there is no difficulty about Government Securities, particularly because, other banks do take loans from the Imperial Bank on Government Securities, and the Imperial Bank's own holding of Government Securities is considerable. If the meaning of emergency currency is that the money market is temporarily short of cash, because the cash has gone out in the country far and wide to perform its function in liquidating commercial transactions, then the creation of such emergency currency under suitable safeguards is justified. The principle has been accepted by Government. But its application has not been satisfactory. Twelve crores do not constitute the limit of what the

* Indian and European Commercial opinion was unanimous on this point, the latter characterising bank rate regulation as " artificial ".

† Mr. S. N. Pochkhanawala, Managing Director of the Central Bank of India, in his oral evidence before the Central Banking Enquiry Committee, said. " But the practice here is that if a Bank goes to rediscount its bills with the imperial Bank, it would be taken to mean that the Bank is in financial trouble." In their evidence before the Royal Commission on Currency in 1925, the Allahabad Bank authorities also expressed similar views.

market may require. Nor is it the limit of what Government are in a position to supply, and may really desire to supply, and if the object of the issue of emergency currency is to prevent the rise of rates, that object has not been achieved. On the contrary, in order to secure the emergency cash, the raising of rates has been expedited.

266. It is, therefore, recommended, that Government should amend the Paper Currency Act and take to themselves the power to issue emergency notes when a case is made out for it, without any restriction as to the rate and without any restriction as to the quantity.

The establishment of the Reserve Bank would, to some extent, alter the situation, but that event, according to Government of India's despatch, cannot come, until sufficient gold resources have been accumulated. At the rate, at which India's fold resources have been reduced in recent times, and considering the danger, which has threatened them recently during a difficult exchange situation, the probabilities are that the Reserve Bank may not be established soon. The alteration in the law, therefore, with regard to the issue of emergency currency should be effected forthwith. The main point to be borne in mind is, that the restriction as to rates and amounts creates a doubt in the money market, that Government assistance will not be adequate, or timely. The removal of the restriction is therefore for the purpose of removing this doubt and not for the purpose of strengthening it so as to leave the course of Government action uncertain and erratic, as hitherto.

267. *Future of the Imperial Bank.*—With regard to the future position of the Imperial Bank, it is quite clear that when the Reserve Bank is established, the obligations of the Imperial Bank as Government bankers must cease. Various restrictions on its business, which are not applicable to ordinary joint stock banks, must also cease. If that is so, there is absolutely no reason, why there should be a special Act for it, and why it should not conform to the ordinary law of the country, and take its rank as the premier Indian joint stock bank. It would be to the advantage of banking in India, if the Imperial Bank were to take this place and were thus to experience in an unsheltered and unprivileged position, the plight of joint stock banks in India. The authorities of the Imperial Bank would then throw in their weight to improve that plight, and, seeking their own interests, they would also serve the interests of their class.

This public gain is, to my mind, of such paramount importance, that the perpetuation of privilege with the Imperial Bank in any direction, would be liable to most serious objection. An attempt to secure the continuance of such privileges was made in 1927 at the time of the Reserve Bank Bill, in what was called by the Finance Member a 'profitable partnership' between the two institutions. But the position was peculiar then in so far as a contract, which was to run out in 1931, was being broken without notice and the Imperial Bank was entitled to some consideration. No such

ground now remains, and considerations of public policy point to the other need of allowing this fullfledged and strong bank to go into the field unaided, and to take the top place in the hegemony of Indian banks.

268. The nature of the concessions, which the Imperial Bank is seeking in the event of the Reserve Bank being constituted, is best illustrated by what was involved in the provisions, as they were proposed at the time of the Reserve Bank Bill. I shall quote from the circular of the Imperial Bank of India.*

"It will be seen that such Agreement which now only has a short further period to run could no longer be maintained once a Reserve Bank came into being and the proposals aforementioned, which have been made to your Bank by Government as compensation against the event of its being deprived of the benefits of that Agreement, are shortly as follows:—

(1) The Imperial Bank should be given the option of subscribing for 30 per cent. of the capital of the Reserve Bank, *i.e.*, $1\frac{1}{2}$ crores.

(2) The Reserve Bank should enter into a contract with the Imperial Bank for 25 years by which the Imperial Bank would do the agency business of the Reserve Bank during this period at all places where there is a branch of the Imperial Bank.

(3) For conducting the Government account, etc., at its upcountry branches in the same way as it is doing now, the Imperial Bank should be paid a commission on turnover, *i.e.*, total receipts *plus* total disbursements, made on behalf of Government. The commission should be 1/16 per cent. for the first 250 crores and 1/32 per cent. for the remainder.

(4) On condition that the Imperial Bank keeps open the same number of branches as at present exist the Reserve Bank should allow the following free and cheap balances to the Imperial Bank:—

1st five years . .	3 crores free.
2nd five years . .	2 crores free *plus* the option of 1 crore at 2 per cent.
3rd five years . .	1 crore *plus* the option of 2 crores at 2 per cent.
Last ten years . .	The option of 3 crores at 2 per cent.

Any branch opened in substitution for one now existing would have to be approved.

(5) For approved new branches opened by the Imperial Bank in addition to the number already opened, the Imperial

* Dated Bombay, 14th April 1927, under the signatures of Sir Norcot Warren and Sir Norman Murray.

Bank should be allowed the following free balances per branch opened:—

1st five years .	. 3 lakhs.
2nd five years .	. 2 lakhs.

This provision would naturally only apply to the end of fifteen years of the contract, unless at that time a fresh agreement were entered into for its continuance."

269. For the following calculations arising from these clauses, I am indebted to the enterprise of the "Indian Finance" Special Banking Enquiry Number.

The remuneration payable under clause (3) above worked out as follows on the basis of the total receipts and disbursements for the years 1924 to 1926:—

	lakhs of Rupees.
1924	16·82
1925	17·58
1926	18·26

As regards the value of free balances and balances at privileged rates of interest, the benefit to the bank was, on the basis of an average return of 4 per cent. per annum.

Rs. 12 lakhs during the first 5 years,

Rs. 10 lakhs during the second 5 years,

Rs. 8 lakhs during the third 5 years, and

Rs. 6 lakhs during the last 10 years.

The total remuneration under clauses (3) and (4) was, therefore, Rs. 30 lakhs* during the first 5 years of the agreement, Rs. 28 lakhs during the second 5 years, Rs. 26 lakhs during the third 5 years and Rs. 24 lakhs during the last 10 years.

The free deposits by the State on account of branch banking extension under clause (5) above may be valued at Re. 1 lakh for each branch, spread over 10 years.

In addition to the foregoing, the restrictions on the foreign exchange business of the Bank were proposed to be removed and of the various means of control, only that relating to the appointment of auditors was retained, the rest being done away with.

That such ideas are still running in the minds of the Imperial Bank authorities may be inferred from what Sir Osborne Smith, Managing Governor, told us in his letter, dated the 24th February 1931.

"In regard to the alternative to my recommendations, *viz.*, the creation of an entirely new Reserve Bank, I take it the Imperial Bank would act as Agents throughout India for such Reserve Bank and that all the restrictions under its Act which it at present labours

* It will be noticed that Rs. 30 lakhs a year would work out at six per cent. on Rs. 5 crores, which is proposed to be the capital of the Reserve Bank.

under would be removed, and the Imperial would become an active competitor with the Exchange Banks.

I consider it would be expensive and superfluous to create a new institution. As the big centres at least are already over-banked, and further competition would seriously embarrass existing Indian institutions, every consideration should be given to unscrambling the Imperial Bank as I have suggested."

The following question put by me to Sir Osborne Smith and his reply thereto speak for themselves:—

Question.—" If it was decided that the Reserve Bank should be a separate institution, is there any need for a separate Imperial Bank of India Act? Is there any objection to the Imperial Bank becoming an ordinary joint stock bank under the Indian Companies Act on the same basis as any other joint stock bank in this country?

Answer.—I do not diverge from my view that the Imperial Bank should become the Reserve Bank. Should however a separate Reserve Bank be established, it would be necessary for it to have agencies in the various centres, as it would be wholly unprofitable and an iniquitous charge on the Central Institution to open sufficient branches for its purpose. The sole institution in India with sufficient branches to adequately perform agency duties is the Imperial Bank and, as such duties would entail the management of Currency chests, Treasuries, etc., the Imperial Bank Act suitably amended should be advisable, indeed necessary, as the Bank must have a status and responsibility apart from other banks."

270. The position needs a close examination. The suggestion is that when the Reserve Bank is established, it should have as few branches as possible, and it should give the monopoly of agency work to the Imperial Bank, including the management of Currency chests and Treasuries, etc. The grant of such monopoly would require the introduction of a separate act, that would give " status and responsibility " to the Imperial Bank, though all the restrictions on the Bank's business are to be removed. Not only that, but the Imperial Bank is to be welcomed and preferred in the field of foreign exchange in place of a new institution, because the multiplicity of institutions would " seriously embarrass existing Indian institutions "! Sir Osborne Smith was emphatic against the proposed restriction on the power of foreign banks to take Indian deposits, or against the proposal that they should not have branches in the interior, both of which measures were suggested for the benefit of existing Indian institutions, but he desires the interests of existing Indian institutions to be considered, where a new institution is proposed, which would tread on fields and pastures, on which the Imperial Bank is casting a covetous eye. The implied obligation to keep existing branches open on the part of the Imperial Bank in 1927 suggest a peril, which is non-existent and which seems to be largely created as a bargaining point in favour of the Imperial Bank. The wholly unprofitable and iniquitous charge on the central institution to open a sufficient

number of branches, has not been found either unprofitable or iniquitous in France, where the central institution has many branches. It is one thing to seek convenience and economy for the Reserve Bank in carrying out its function, but it is quite a different thing to sustain a monopoly, and to establish the privileged status for the Imperial Bank through this excuse. On what terms is the Reserve Bank going to make this arrangement with the Imperial Bank? The discussion did not take place in the Committee, probably because it was premature, but in view of what has happened in the past and the extravagant terms sought by the Imperial Bank as the price for releasing the Government of the country from the contract, the Reserve Bank Board should not make exclusive arrangements with the Imperial Bank, or arrangements for a long period, and the terms should be most carefully scrutinised. An additional reason for scrutinising such terms would be that, as agent of the Reserve Bank, the Imperial Bank would have considerable funds belonging to the Reserve Bank in its possession from time to time. These would be not only funds on their way from general revenue into Government balances, but also funds, which the Reserve Bank would want to invest in various directions permitted by the Act and for the discharge of its obligation towards the banking system of the country and towards agriculture and industry. The provisions for compulsory deposit of cash from member banks would thus in practice be largely inoperative in the case of the bank, which is agent of the Reserve Bank. In the agency work itself not only are primacy and status involved, but there is lurking a real advantage, which would enable the agent of the Reserve Bank to compete on unequal terms with Indian joint stock banks.

271. The attempt to secure further privilege will be made and I must utter a warning against giving such privileges. I am uttering this warning, not because I have any antagonism towards the shareholders of the Imperial Bank, but when so much is being heard with regard to the principles of self-help in the field of co-operation and as regards indigenous bankers and Indian joint stock banks, it would be legitimate to preach these principles at least to a bank, which, has not only attained maturity, but which has a magnificient history behind it, and which has prestige, large accumulated reserves and a trained staff. It is essential to destroy this suspicion in the minds of the joint stock banks in the country, that privileges have been given to the Imperial Bank, which in effect prevent their growth.* It is essential to remove that suspicion from the mind of the Indian public.†

* I find that it was stated in evidence before the Currency Commission that when the Imperial Bank came and opened branches at places where the Allahabad Bank was working, the Imperial Bank immediately formed a contract through its brokers for the purchase of a large quantity of Hundies payable on demand at rates which could not pay the other banks.

† Lala Harkishen Lal, who, in his life time, has been to my knowledge the founder of three large joint stock banks in India, expressed himself as

(Footnote continued next page).

272. The grant of the privileges, therefore, to the foremost and strongest bank in the country in order to induce it to do some service, which was considered of importance in the field of financing of the foreign trade or of industry, would be ill-conceived and harmful. I regret, therefore, that I am opposed to any form of barter of the right of acting as agents of the Reserve Bank for five years against the entry of the Imperial Bank in foreign exchange business. This is the class of business, from which it was shut out by statute, and it has complained against such exclusion from a "profitable field". Even Mr. MacDonald, the Managing Governor, who appeared before our Committee, pointed out that, if released, it would be able to enter this business with confidence and without any difficulty in two years. It was pointed out in the discussions of the Committee that the Imperial Bank had already a nucleus of business in this line, however small, in connection with the remittances of its constituents amounting to £6,000,000. Under the circumstances, I cannot see at all the need of any special or extra inducement in this direction. If an inducement is given to the Imperial Bank to enter this field, why is it that any other joint stock bank, that may want to enter this field, should not be given this inducement or its money equivalent? On what principle is the Imperial Bank picked out for this special favour? It is not a favour asked for by the Imperial Bank after examining the question and finding that they are unable to enter into this business without such special facilities, or without a *quid pro quo*. The offer of any special favour now to them is betraying an unhealthy anxiety to induce a concern to do something, which it will only do, if and when its directors are fully convinced of the profitableness of the programme.

273. Similarly in the field of industrial finance, the placing of debentures with the public, etc., the suggestion that the Imperial Bank should be utilised is a sound one, but it has been over and over again mentioned to us, that it all depends on whether the shareholders and the directors decide on such class of business and that they would only do so, as and when they consider it profitable. It is remarkable, that neither of the two Managing Governors, who

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follows on the Reserve Bank Bill and the proposed privileges to the Imperial Bank.

"One could not devise a deeper measure of monopolising the whole banking of India and more complete usurpation than this Bill does. It amounts to this:—

"No Banks but the Imperial Bank of India, no humbug of National Banks, Industrial Banks, Commercial Banks, but the Imperial Bank of India. If the favourite one appears in a fisher's hut or on a house boat or in Timbucto, three lacs free of interest for five years equivalent to a gift of Rs. 21,000 a year at the present rate of the Imperial Bank investments. Then the free supply of gold; not from the Reserve Bank. How sometimes positives are used to mean negatives. I do not propose to dilate on the interliner readings of this measure, as I have no doubt Pandit Moti Lal Nehru and his flock in the Assembly and Mr. Thakur outside will be able to meet the situation."—(Page xv of the Introduction to the "Organization of Indian Banking", by Thakur.)

appeared before us, nor the representative of the Imperial Bank, who was a member of the Committee, ever indicated the direction, in which the Imperial Bank had fixed the programme for the future, in the event of the Reserve Bank of India being established, or the various alternatives, which may be open to the Bank. So long as the directors and the shareholders of the Imperial Bank maintain a sphinx-like silence, it is not for any public authority in India, much less for the Central Banking Committee, to discuss what this institution should do in future. Any inducements now formulated may be found either unnecessary, or insufficient. Where such inducements take the form of a special act and constitution, of special status and privileges, and of special contract, as a matter of public propriety, I think, the initiative should come from the Bank authorities. There should be very special reasons justifying a departure from the policy, which I am recommending, *viz.*, *to improve the general condition and outlook of all Indian banks.* Only those, who are ready, will take the maximum advantage of the improvement. I regard the Imperial Bank from every point of view well-equipped and in the vanguard. I am confident, therefore, that the Imperial Bank will gain in many directions through the various measures, which I have suggested, without any special privileges, status or contract.

CHAPTER XVII.

THE RESERVE BANK.

274. The scope of this report, which has to be limited in bulk, does not permit a comprehensive resume of numerous discussions with regard to a central banking institution, which have taken place in India for a long time now. Loose ideas have existed with regard to the relation of Government and trade and the relation of Government and banks. In connection with the employment of a bank as Government bankers and in connection with the note issue, various discussions have taken place in the past. Ideas have crystallised both in India and elsewhere in the world in the matter of the proper function for a central bank, and they were reflected in subsequent projects, which were put forward. The most notable of these was that of Mr. Keynes in 1913, but the Imperial Bank Act of 1921 did not by any means absorb the essential ideas. It did not even remove the prevalent misapprehension with regard to rediscount of bills of other banks by the central bank. It would be to the credit of Sir Basil Blackett that soon after his arrival, he noticed this gap in India's financial organization and devised measures to fill it up. It is, however, regrettable that even in the formulation of these measures, some essential factors were omitted and some were distorted. The unhealthy and injurious effect of London City opinion on India's financial destiny could be discerned in the provision of bills, which were then introduced, and, above all, could be seen the triumphant dominance of vested foreign interests in banking in India. The establishment of the Reserve Bank was sought, it would appear, amongst other things, to take away public attention and divert blame from Government in respect of charges of manipulation of currency. When a country is not on a full and proper gold standard, automatic conditions do not exist, and manipulation, is certainly inevitable but necessary. One can fully sympathise with the Finance Minister of India, when he said before the Federation of Indian Chambers of Commerce in Delhi on 8th April 1931, as follows:—

"The chief basis of criticism is that in India it is the Government that is the chief currency authority, while in other countries it is the Central Bank. Government's actions are liable for criticism much more than those of a bank and more so, when there is a so-called alien government."

275. One cannot help noticing that the first Reserve Bank bill included as member banks 10 British, 9 foreign, and only 7 Indian banks. This meant that the Reserve Bank, while relieving Government of its currency functions, would have its dealings confined to 19 foreign banks and 7 Indian banks. The anticipated benefit in the credit machinery was going to be used more extensively by foreign banks, not only greater in number, but in strength. While the Reserve Bank had restrictions, unusual in the constitution of central banks, which would have prevented it from interfering with

foreign banking interests, or competing with them at any point, it would have placed at the disposal of these foreign interests concentrated resources, which would have enabled them to further strengthen their very strong position in this country. From India's point of view, the disinclination to set up a costly and elaborate mechanism at the top until the Indian banking position was not only examined but considerably strengthened at the bottom, was voiced in his minute of dissent by Sir Purshotamdas Thakurdas. Sir Basil Blackett, however, expressed himself emphatically on this subject.

"And the plain fact is that one institution cannot fulfil both these requirements. Nor would it be fair to other banks or in the long run consonant with the interests of India to permit one single institution to monopolise the field."*

Indian anxiety now is in the direction of having a Reserve Bank of the right sort, and public opinion appears to be generally reconciled to the idea of a new institution.

276. *The need of the Reserve Bank.*—The staple argument in support of the establishment of the Reserve Bank in India has been the desirability of avoiding dual control of currency and credit by concentrating them in one hand, and the more effective use of the combined central funds for meeting the combined obligations in relation to both. This cryptic statement involves assumptions, which may be elucidated. In order to establish confidence in the currency of the country, arrangements have to be made for prompt convertibility from one form into another for internal purposes and for regulation of the issue of different forms in quantities required. Where all forms are convertible in gold on demand, which can be used for effective payments abroad, the system would be called gold standard and the mechanism of the exchange would be governed by automatic movements to and fro of gold at the higher and lower gold points. The manipulation of price levels and expansion and contraction of credit involve under a managed system much more scope for human miscalculation. The adjustments are uneven and by jerks. They are worked on the system of trial and error. Their full force is felt disproportionately in some centres and in some markets. The inevitability of management of all standards does not mean that world opinion is reconciled to the wisdom and infallibility of the greater management and manipulation, which cannot be divorced from a gold exchange standard. Arrangements have to be made for securing the cancellation of obligations both-ways as far as possible and for meeting the gap, when it is created by any extraordinary situation involving excessive favourable balance or *vice versâ*. The fixity of exchange then becomes a very important consideration and numerous measures involving the subordination of other economic factors have to be employed. If such a system of managed currency is unavoidable, the carrying out of various measures to secure the fixity of exchange could be

* Address before the Delhi University, 1926.

more conveniently done by a bank than by the state, both from the point of view of interference and comment from public opinion in India and abroad, and pressure of various interests from India and abroad.

277. Amongst such measures, which become inevitable, to meet the situation where the balance is unfavourable, would be contraction, which could not be effective if it is merely brought about by deflation of currency. As banking habits grow, and to the extent to which credit instruments become the medium of exchange, credit has also to be restricted. Authority in dual hands under these circumstances is unthinkable, and excessive control by Government, as currency authority, of the central bank, which ought to have the effective means of regulating it, is also undesirable. It is not open to us, as indicated by the Chairman, to import in this report any discussions on currency matters. I shall not, therefore, raise the topic as to whether the direct and indirect price paid by a country in securing, or attempting to secure the proper working of a gold exchange standard is, or, is not greater than the cost of a gold standard proper. The Reserve Bank in India, when it is established, would necessarily become the currency authority for such standard as is fixed by the law, and would have its obligations in this direction defined in conformity with that law. That it will be able to carry out the dual obligations in respect of currency and credit better and more economically than they are carried out under the present unsatisfactory system of divided control, cannot, however, be gainsaid.

Arguments for the need of the Reserve Bank from the banking side would be found in the deficiency of the Imperial Bank as bankers' bank and regulator of credit. The existing provisions for emergency currency examined elsewhere in this report, do not allow that elasticity of issue, which has been secured either by law or by practice in most countries, whose experience can guide India. The advent of the Reserve Bank would undoubtedly improve the situation in this direction. There is no reason to doubt that this country can be saved from the high bank rates at certain seasons, from which trade, industry and all persons having money operations in the country have suffered directly and indirectly. The 'artificiality '* from the bank rate policy of the Imperial Bank could be removed by the Reserve Bank, with whom the business motive of profits may not be as strong, and who may be expected to carry the larger amount of cash at the slack season to enable them to meet,—without frequent changes in the bank rate, or without taking it up to a high level—the known seasonal demands for additional money from year to year.

278. The proposal for the establishment of a Reserve Bank derives its strength also from the necessity of divesting the Imperial Bank of the restrictions on its business and of special privileges,

* *Vide* Oral Evidence of the Bombay Chamber of Commerce, questions Nos. 195 to 203.

which enable it to compete on unequal terms with Indian joint stock banks. Those, who look up to the central bank for assistance, either in normal times, or when a crisis is feared, cannot do so with confidence when the institution, whom they have to approach, is an institution, which at some point and in some manner, is a competitor in their normal legitimate activities.

The establishment of a central bankers' bank will eliminate the stigma attached to the rediscount of bills by banks, will encourage acceptance business by indigenous bankers and banks, and may be expected to help in popularising the use of the bill, and in organizing the bill market. The needs of agriculture, of the co-operative movement, and of a greater amount of land mortgage credit, could also be attended to by the Reserve Bank better than now. It has been indicated in other sections, what part the Reserve Bank is expected to play in the financing of industry and of foreign trade. Above all, the need for the Reserve Bank arises, because there is no one in this country at present charged with the function of supervising banking development and of watching, that, from the national point of view, it is on right lines. A central banking authority of unequalled status, of unquestionable integrity and detachment, and of unfettered and wide powers, could do much, which is not being done at present, for the advancement of banking.*

279. *The time for establishing the Reserve Bank.*—Arguments supporting the great need for a Reserve Bank also sustain its urgency, but delays in initiating financial measures urgently needed are nothing unusual in India. Several of my colleagues shared the apprehension that the Reserve Bank might not be established for some time, and they therefore, recommended that, if it was not established within three years, the state exchange bank was to be called into being. The same apprehension derives strength from quite a different quarter. Government of India deal with this question in their despatch. "It must, however, be admitted that the present is an exceptionally unfavourable time for an attempt to establish a reserve bank. During the present period of falling prices the currency authority of a country like India, which relies mainly on agricultural exports, must be forced, in order to fulfil its duty for maintenance of exchange (whatever the statutory ratio may be), to follow a course involving the removal of redundant currency from the market. The bank would have to rely on the use of its sterling resources or on sterling borrowing, in which respect its position would be far weaker than that which the Government has

* Even Sir Basil Blackett appeared to share this aim as the following will show:

"It is recognised on all hands that they offer to India an immense advance towards more than one of her aspirations. At one stroke control of Indian currency and finance will be transferred from a centre situated at some point between Whitehall and Delhi into the sole control of India. And while geographically the control will be in India, the atmosphere in which that control will be exercised will be no longer a Governmental atmosphere but an atmosphere permeated by the views of representatives of agricultural, commercial and industrial India." (Delhi University Speech, 1926.)

held hitherto with the credit of the Secretary of State behind it. But more important still, as has already been pointed out, any sudden change in the administration, or fears as to the future constitutional position, may start a tendency for capital to leave India, and so long as this is going on, the balance of remittance may be insufficient, with a consequent increase in the strain on the bank's reserves or on its capacity to borrow. Lastly, a special difficulty is created by the fact that in any case a special strengthening of reserves is necessary, for the present gold and sterling reserves held for currency purposes by the Government cannot be regarded as sufficient for the secure working of the reserve bank even in normal times. As indicated in the report of the last Currency Commission, these reserves will require to be built up gradually, and it is difficult to see how, in all the circumstances, this can be done without further external borrowing on a large scale.

"The combination of circumstances, to which we have referred, means that the inauguration of a reserve bank to relieve the Government of its functions in regard to currency and exchange is a matter, which demands careful preparation and a combined effort by the Government and the people of the country. It cannot be regarded as a condition easy of fulfilment or lightly left to an uncertain future. At the same time, we must make it absolutely clear that it ought to be definitely a part of our programme, and that it should be undertaken at the earliest possible moment."*

The following is also of interest in this connection:—

"The Sub-Committee recommend, with a view to ensuring confidence in the management of Indian credit and currency, that efforts should be made to establish on sure foundations and free from any political influence, as early as may be found possible, a Reserve Bank, which will be entrusted with the management of the currency and exchange."†

280. I am sure the public will look to the report of the Central Banking Committee for some enlightenment regarding any reasons justifying a delay. From this point of view, it is unfortunate that "sure foundations," the need for which may be readily agreed to by all in its application to the Reserve Bank, has nowhere been defined. Sir Osborne Smith, in a letter to the Committee, dated 24th February 1931, said:—

"What sane authority would assume responsibility of these operations in such times as we are passing through and with a large proportion of the country's reserves in unstable silver! Therefore, before a Reserve Bank comes into being I consider it essential that substantial gold and sterling security reserves should be provided."

* Pages 150-151.

† Extract from the Report, Federal Structure Sub-Committee of the Round Table Conference, paragraph 18.

Nevertheless, he goes on to say:—

" My idea follows the line of making, if feasible, the Imperial Bank the Central authority. This would necessitate (for a major reason explained hereafter) shedding its trading activities to preferably reconstituted Presidency Banks. Admittedly this reconstitution would be a complex problem, but not insurmountable and of course subject to the consent of Imperial Bank shareholders. The Presidency Banks, which in the past were highly popular and with their numerous branches throughout India would act as agents for the Central (Imperial Bank) . . . . . An added advantage in constituting the Imperial Bank the Reserve Institution is that a ready made commercial directorate comprising the foremost brains, both Indian and European, and subject to shareholders' sanction, would be available, thus removing the contentious rock on which the previous bill crashed. The Board would be completed by Government's nomination to represent sectional interests."

On the position set out above, the following examination throws more light:—

" *Mr. Manu Subedar.*—It is acknowledged that a Reserve Bank, in order to function effectively, would have to possess adequate gold reserves. It is the feeling of certain people that India must accumulate these reserves before starting the institution. Others think that the functions of the Reserve Bank are at present being imperfectly performed by the Controller of Currency on the one hand, and the Imperial Bank of India, as it is, on the other hand, and there would be an advantage in establishing a Reserve Bank with such funds as are available. The combination of the functions in one hand would ease to some extent the position and make the available funds at least more effective than they are now either for the control of currency or for the control of internal credit. From your letter and the proposal to split up the Imperial Bank, it would appear that you also favour the establishment of a Reserve Bank with, say, half the capital and reserve in the Imperial Bank and with such funds from currency reserves, Government balances, and compulsory Bank reserves as the new Bank would have. Please indicate whether the balance of advantage for India would be in the early establishment of the Reserve Bank with available funds, or in waiting, perhaps fruitlessly for a long time, for what may be considered adequate funds.

Sir Osborne Smith.—The main factors operating against the establishment of a Reserve Bank at present are:—

(1) Inadequate Gold and Gold Securities Reserves and a disproportionate amount of unstable silver.

(2) The low level of commodity prices causing dullness of trade and consequent weakness of rupee exchange.

After giving full consideration to your question I am of opinion that it would be unwise to institute the Reserve Bank on any but the soundest lines and with adequate Gold and Gold Securities

Reserves. Such can only be acquired when confidence is restored but there may be a favourable turn of the tide at any moment thus making the requisite loan possible.

N.B.—Although I strongly favour the establishment of a Reserve Bank, I made no recommendation in regard to the Imperial Bank such as is set out in the question."

281. It is not altogether clear from official pronouncements, whether the new institution is not to start until adequate reserves are built up, or, it is to help, after its inception, in that task. The following words from Sir Basil Blackett appear to lend support to the latter assumption:—

"The building up of a reserve of gold and gold securities adequate for all emergencies, and the management of reserves of rupees and rupee securities in a manner calculated to secure increased elasticity combined with complete security, the control of Government balances which are to be deposited with it both in and outside India, the management of the remittance programme of the Government of India in strict relation to the automatic working of the currency system and to the maintenance of the absolute stability of the gold value of the rupee, and finally the duty of watching over and assisting the growth of banking in India generally,—these set out, though not exhaustively, some of the more important functions of the proposed Reserve Bank."*

If the present moment is not unpropitious for a reconstituted Imperial Bank to become the Reserve Bank of India, I cannot understand the counsel of extreme caution about soundest foundations being urged in the interests of further delay, when a new institution is proposed. The only advantage in splitting up the Imperial Bank and creating a Reserve Bank from it, would be, that it would save Government having to find Rs. 5 crores, which would not be a very difficult matter for Government, but which would seriously weaken the position of the residual Imperial Bank doing ordinary banking, which ought to retain its premier position amongst the Indian joint stock banks. Nor can it be said by any one, that the present Board of the Imperial Bank would command the confidence of the Indian public, if the bank were bodily changed and installed with the control of the currency. I cannot help wishing, that Sir Osborne Smith had indicated, what would be considered "substantial gold and sterling security reserve" or "adequate gold and gold securities reserve." The Committee, unfortunately, did not discuss it either, though it was mentioned that the immediate shortage, if the provisions of the last Reserve Bank bill were to be the basis of calculation, was something like £ 13 millions. Since the value of silver in the reserves is falling and the nature and composition of the reserves, including the gold resources, is constantly changing under the stress, through which the system is passing, calculation on existing figures of note issue and reserves would be somewhat inconclusive. But, if inadequacy

* Address before Delhi University, 1926.

of resources is to be made the ground for delay in the establishment of a Reserve Bank, it would engender public confidence in the measure whenever it is initiated, if Government were to indicate specific amounts, which they consider adequate, and the difficulty of raising these amounts.

282. In the absorption of gold, India has acquired a bad name in the world, and international opinion appears to have combined in keeping India out at least with regard to the use of gold for her currency purposes. The scramble for gold is causing distress for a financial centre like London, and the revival of any discussion, by which, India, which has always had to take a second place, would invade the gold stocks of London, is likely to be deprecated in high quarters. Sir Osborne Smith would also appear to think that for the necessary gold loan to start India off with her Reserve Bank, the propitious moment is not yet. Whether such a gold loan could not be raised at a centre other than London, such as New York, has been a matter of discussion in journals like the "Indian Finance", but does not appear to have been officially considered. Sir Osborne Smith, when he was before us, instanced the failure of the Australian loan in New York, the bulk of which came in London for resale. Whether this was because New York foresaw the essential weakness of Australian finance and did not want to hold on to these investments, or, whether it was because the cross rate between London and New York was favourable to the sellers of securities in London, it would be difficult to say. But the possibility of India raising a gold loan in New York to be used for the specific purpose of establishing the Reserve Bank is so vital to the determination of this question and of many essential banking reforms, which hang on the Reserve Bank coming into existence, that I recommend a special enquiry through a financial mission to New York, if and when inadequacy of gold reserve becomes the sole ground for delay.

It is distressing that the world stock of gold should not be available to India for this purpose, even when India is willing to pay the price. Sir Osborne Smith referred also to the possibility of securing gold in India from patriotic Indians for this purpose, While I would support every effort to secure the necessary gold in India and also to concentrate as much of the stock held in India in the hands of the Reserve Bank, I feel that the releasing of Indian gold stocks in this country will follow, and cannot precede, the establishment of the Reserve Bank. The motive for hoarding gold or bullion can be destroyed, only when gold bullion is made freely available against currency, that time seems to be far off yet, but the intermediate step with regard to bullion certificates would certainly lead to the beginning of that confidence.*

283. There are advantages in the immediate establishment of the Reserve Bank. India cannot have a central bank better than she can afford, and the central bank established with such funds as

* (*Vide* paragraph 302 regarding bullion certificates.)

are at the moment available, cannot function worse than the Finance Minister as the currency authority and the Imperial Bank as the banking authority are now functioning. The nature and extent of these funds are known to the public now and will continue to be known to them after the Reserve Bank is established. The inadequacy of gold resources raises problems even now and the difficulty of these problems is not going to be materially increased, if the Reserve Bank, as a limb of the state, had to face them, instead of Government. It would only mean that some of the functions, which the public would expect the Reserve Bank to perform, the Reserve Bank would not be able to perform. Are these functions being performed now and are these obligations being fulfilled now?

The ground for urging an immediate establishment of the Reserve Bank is to allay the suspicion, which is gathering in Indian minds, and which was expressed with characteristic emphasis by Sir Purshotamdas Thakurdas at the last meeting of the Federation of Indian Chambers of Commerce. He said: " We are convinced that the economic fabric of the country is being woven by other than Indian interests." Suspicion is the reverse of confidence and it destroys the foundation of credit. If it is of importance that confidence should be established in the financial institutions set up in the country, particularly in the Reserve Bank, it follows that suspicion in the minds of Indians in connection herewith must be removed. It is unfortunate that at the Round Table Conference the question of the reservation of certain financial powers was made dependent upon the emergence of the Reserve Bank. The question of the Reserve Bank, it would appear by some strange fatality in India, gets mixed up with political issues, which have little or nothing to do with it. Since the Reserve Bank question assumes an overwhelming importance in the recommendations of the committee and since the threads of many other recommendations have got to be held by the Reserve Bank as the proposed central banking authority in the country, I may be permitted to emphasise the need of separating the Reserve Bank question from other constitutional and financial questions and of allaying the public apprehension, that the establishment may be delayed, even after it has become possible on financial grounds, through other and extraneous causes.

284. *The Constitution of the Reserve Bank.*—The following extracts from Government of India's despatch on constitutional reform (1930) indicate the views of Government on this subject:—

" We wish here to emphasise one further consideration, *viz.*, that it will be necessary that the constitution of the bank should contain safeguards for its future control against the danger of political interference. We should hope that it would be possible to convince Indian opinion of the desirability that such a bank should work in close co-operation with, and on lines approved by, the Bank of England. This idea could be supported by the general consideration of the importance of co-operation between the central

banks of the world, and especially within the Empire; while the action just now being taken by the Bank of England in giving counsel in a period of great difficulty to Australia may help to convince Indian opinion of its value. Whatever the future for India may be, she must always be greatly dependent upon her standing in the London money market, and nothing could be of greater service in this direction than a close co-operation between a central bank for India and the Bank of England."*

" That the right course must be for India to follow the practice of other countries, by providing that the control of both currency and credit should be united in the hands of a central bank acting independently of Government. The underlying idea in all countries is that the currency authority should be free to conduct its policy in accordance with the dictates of sound finance detached from all political influence."†

" We wish therefore to state in unambiguous terms that the formation of a reserve bank on sound lines must in our view be a condition precedent to any transfer of financial responsibility from the agents of Parliament to a minister answerable to the Indian legislature."‡

" When the reserve bank scheme was under discussion in 1927, it was contemplated that the bank should undertake all the remittance operations of the Government of India, and would supply the Secretary of State with sterling funds against corresponding debits in rupees in India. If the same line is followed when a reserve bank is created, practically all the control of the Secretary of State over the details of the currency and ways and means operations will automatically cease, and it might then be desirable to relieve him of the function of floating loans for the Government of India. The reserve bank manager in London might have an advisory committee to assist him, and the High Commissioner in consultation with the manager of the reserve bank and his advisory committee, could suitably undertake the management of the Government of India's sterling borrowings."§

" We should further suppose that by that time the advisory committee of the London branch of the reserve bank would have been constituted. This committee would be available to give advice either to the finance minister or to the Governor-General with his financial adviser. The future evolution of these arrangements would necessarily have to depend on practical experience."||

285. In Sir Basil Blackett's time, Government's anxiety to secure the passage of the Reserve Bank bill was so marked, that one would infer, that it was Government's intention to go ahead with the Reserve Bank without any reference to the Banking Enquiry. Since the Banking Committee was appointed with terms of reference, which definitely included the question of the Reserve Bank, one or two utterances of the Finance Minister gave some room for the

* Page 151. † Page 150. ‡ Page 150. § Pages 156-157. || Page 155.

idea that Government might be still anxious to secure the establishment of the Reserve Bank before the report of our Committee became available. I had made enquiries from the Chairman and was informed that the Chairman was in negotiation with the Government of India. As no attempt was made by Government for bringing a Reserve Bank bill in the Assembly, it came as a surprise to me and several colleagues of mine on the Committee, when the Chairman ruled out the discussion of questions bearing on:—

(1) Whether the Reserve Bank should be a state bank, or a shareholders bank, and

(2) What should be the composition of its directorate.

In reply to a question, the Chairman made it clear that his ruling was in the exercise of his discretion as Chairman, and not the result of any communication from the Government of India or His Majesty's Government altering the terms of reference of the Committee. After this ruling, in order to proceed with the discussion of topics not shut out by the ruling, the Committee proceeded on the following assumptions:—

(*i*) The Reserve Bank would be established by an Act of the Indian Legislature;

(*ii*) The capital of the Bank would be provided by the State;

(*iii*) The Bank would be under Indian control; and

(*iv*) The Bank would be free from interference from executive or legislature (Indian or British) in its day to day administration.

It was understood that the Committee's recommendations on the working of the Reserve Bank and its relation with the money market would be based on these assumptions. As the tenets of public procedure demand, I submit to this ruling and refrain from making any recommendations on the constitution of the Reserve Bank.

286. The importance of decision on these matters may, however, be indicated. The Reserve Bank is going to be the most powerful instrument affecting the economic life of this country. Its errors and accomplishments will tell on the collective welfare of millions of people. Its action will be unseen, but not unfelt. The layman would never be able to put at its door the consequences, which may have inevitably and certainly followed from its actions. In the eyes of the world outside, anything, which the Reserve Bank of India will do, will be the index of the mind of India. The Reserve Bank could cause tensions and create animosities. It is, therefore, essential in India's interests, that the Reserve Bank should reflect in all respects the Indian nation, such as it is.

There is a material difference in the process of bringing in existence the Reserve Bank of India. In countries, where banking on modern lines is old, the central banking institution has grown. In India it is being set up 'de novo'. India has no living bank-

ing system of her own, as the final flower of which this institution can emerge at the top. Not only is banking in India by Indians limited in volume and deficient in strength, but foreign banking interests have secured a dominant and outstanding position of vantage, which they seem to be determined to hold on to. The central banks operating in different countries have points of similarity in their main functions, but in many important details, there are variations. Each country appears to have chiselled out a model suited to its requirements, but everywhere great watchfulness is exercised, that foreign interests do not interfere directly and indirectly with the central financial institution, which is at once the pride and safety of the nation.

The ruling of the Chairman, which has the effect of depriving the legislature of such advice as the Central Banking Committee could have tendered on this subject, imposes additional obligations on the Indian legislature to safeguard the Indian point of view and the Indian interest, when the question of the Reserve Bank comes up before them for discussion, because the intention appears to be that the statute will provide the policy once for all. Sir Basil Blackett made this clear, when he said.

"The Government of India and its legislature will determine the policy once for all by statutory enactment. Thereafter the whole responsibility will rest with the Bank."*

FUNCTIONS OF THE RESERVE BANK.

287. *Currency Functions.*—Under a direction from the Chairman, I refrain from commenting upon the functions of the Reserve Bank, in so far as they relate to currency matters. Where currency matters directly or indirectly over-run questions affecting the bank rate and the money market, the importation of gold in India, the constitution, location and the use of the reserves, reference to these questions would be unavoidable. In the process of thought, it is impossible to conceive of an institution brought into existence for doing certain things, without keeping in mind the activities of that institution in other directions. It would be impossible to form an idea about the Reserve Bank without taking into account all that it is expected to do. The "sure foundations" have to be sure in every direction. A sound basis is wanted as much for the success of this institution in its banking functions as in its currency functions. The Reserve Bank will be launched out as a whole and will work as a composite whole, and its success or failure will be judged as a whole.

288. *Banking Functions.*—No full discussion took place in our Committee with regard to the functions, which it would be proper for the Reserve Bank to perform. This was the result of the fact that the Committee considered the last Reserve Bank bill as it was presented,† and assumed that it was substantially on correct lines.

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*(Sir Basil Blackett's Delhi University Speech, 1926.)

† *See* annexure V to this report for a copy of the Bill.

The presence in the Committee of those, who had in their official or non-official capacity the benefit of being associated with this bill, or with its predecessor in the Assembly or in the Select Committee of the two Houses, which considered these bills, may account for this confidence. I, however, cannot share this outlook. I shall, therefore, briefly examine the position of the Reserve Bank from the point of view of banking functions. The object of the bill was stated as follows:—

"Whereas it is expedient to provide for the establishment of a gold standard currency for British India; to constitute a Reserve Bank of India to control the working of that standard and regulate the issue of bank notes and the keeping of reserves with a view to securing stability in the monetary system of British India; and generally to make provisions for matters incidental thereto."

It will be noticed in the above that the banking provision comes in by the side door only. The same impression can be gathered by the paucity of clauses directly affecting banking in the bill itself.

289. *The Bank Rate.*—The rise of the bank rate during the busy period of the year is greater in India than in most other countries. The injurious effect of the high level of bank rate on trade and industry has been recognised in India universally by all shades of opinion. Elsewhere in other countries, a rise in the bank rate is regarded as a tax on enterprise. It is viewed with alarm, as it would affect directly and indirectly millions of contracts. It would affect capital value of Government and other securities, and of many other kinds of economic assets. It would affect all organized markets. The occasion for a rise is, therefore, avoided as long as possible and every effort is made to bring down the rate as soon as possible. The rate is not raised, till there is a visible effect on the gold resources of the Central Bank. It is not raised in western countries merely through larger internal demand, which is known in advance and which could be met through the elasticity of issue. In India conditions affecting bank rate have been somewhat different. They have been described as 'artificial.'* Occasions for raising the bank rate had arisen, when the cash balances with the Imperial Bank of India were fairly high, and on one occasion at all events,† it is well-known to the public, that the rate was raised against the protest of the Directors of the Imperial Bank at the instance of the Government and as part of the policy of contraction. The extreme swing of the rate and the wide gulf between seasonal rates, and the need for raising the rate for reasons other than those concerned with banking, point to an unsatisfactory state of affairs, which must be done away with as soon as possible. The establishment of the Reserve Bank and its working on sound lines will enable that periodic and seasonal expansion of currency to meet a known and heavy demand. This may be expected to keep the

* Refer to evidence of European Chamber of Commerce.

† February, 1929.

rates down during the busy period. But the non-banking and currency reasons, which arise from the nature of the standard of currency, and from the manner in which stability is sought, will still remain. It is not open to me, under the terms of reference, to suggest remedies in this report. But the following provision, which enables the Bank to issue more notes, and which enables under certain conditions the suspension of the reserve obligation subject to a tax, improves the position very considerably with regard to the machinery for periodical expansion of cash for internal use:—

41. (1) " The Bank may, with the previous sanction of the Governor General in Council, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold in the Reserve gold coin, gold bullion or gold securities of less aggregate amount than that required by sub-section (2) of section 31 and, whilst the holding is so reduced, the proviso to that sub-section shall cease to be operative."

Bank Rate and Discount Rate.

The main instrument for securing stability in the monetary system in its relation to credit will be the bank rate. It is defined under Section 47 as follows:—

" The Bank shall make public from time to time the minimum rate, at which it is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under this Act." I would recommend a modification by the addition of the following words:—

" But the Bank shall have discretion to discount paper of member banks at a rate lower than the published rate."

This is intended to give statutory power to the Reserve Bank, whenever it can, and whenever it likes, to offer a special rediscount rate to member banks. It will be open to the Reserve Bank to decide, how long the benefit of such rate will be made available and for what quantity of bills, but there may be periods, when the Reserve Bank may have spare funds, which can be usefully directed in this channel. There is an existing prejudice in India against rediscounting of bills by banks, and this prejudice has to be broken down. The Reserve Bank will have not only the power, but will have frequent occasions to come in the open market for bills. If the same rate of discount is available to member banks as to members of the public, there will be no inducement to the banks to avail themselves of the rediscount facility, except when higher money rates may be anticipated. The use of the rediscount facility would therefore remain an abnormal feature of the Indian money market. It came in evidence before the Committee that the disinclination of Indian banks to avail themselves of re-

discount facilities, which the Imperial Bank itself has never refused, arose from two causes. One was the stigma attached to rediscount, and the second was that the rates were not attractive. Since provision is being made in Section 17 (4) (*e*) for loans against promissory notes of banks, there is reason to apprehend that, whenever banks desire to borrow, they would prefer to do so under this section rather than by rediscount of bills. A special measure is desired for banks to induce them to hold a larger number of bills than at present, if the bill market is to be created. The inducement would arise from a special rediscount rate lower than the bank rate, as suggested. There would be the precedent for discounting below published rates in the practice of the Bank of England and the German Reichsbank.

290. The bank rate has hitherto been the rate, at which the Imperial Bank would be willing to lend against government securities, subject to their usual margin. The bank rate has thus signified something quite different in India, from what it signifies elsewhere. In other countries, the bank rate is the rate of discount of the central banking institution of the country, at which first class bills would be discounted by it. There is at any particular time only one declared bank rate but in advanced money markets, the normal condition is that bills can be discounted in the market at much lower than the bank rate.* The central institution itself, as in the case of the Bank of England, discounts bills for certain clients at market rate, *i.e.*, at much lower than the bank rate. The rate is in the nature of a penal rediscount rate availed of by banking institutions, who turn to the Reserve Bank, when they are in difficulties, or when the market is tight. The position in these advanced money markets is that for discounting of trade bills, there are ample funds and there is no need to supplement these by a call on the currency and Government funds in the hands of the central Reserve Bank.

The problem in India is to be envisaged from three points of view. The first is the dearth of commercial bills and the causes of this dearth principally lie in the growth of cash credit system and in the lack of touch between a large body of Indian merchants and traders and the leading banks in the country. Both these are remediable but they will take time and will want close effort. This effort would have to be largely at the hands of the Reserve Bank. It is of importance to break down, in the first instance, the prejudice attached to rediscount by banks in this country.† Even when this is done, banks will not seek rediscount at rates, at which the Reserve Bank will go into the open market to buy or discount first class trade bills. The position in western markets is that the rate for discount of bills is much lower than that prevailing for cash credit. The latter is governed by the bank rate and the

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* *Vide* Annexure II.

† Evidence of the Allahabad Bank and the Central Bank already referred to elsewhere.

former is usually much lower than the bank rate. In India the discount rate for bills for a limited amount and of chosen parties by the Imperial Bank is the bank rate, but the largest number of hundis, first class trade bills, documentary bills with genuine transactions behind them and bearing signatures of first class parties, are discounted at a higher rate. The market, therefore, for hundis works as a rule on a basis higher than the bank rate, a condition reverse of what obtains in the western countries. In order to bring about a true parallel and to bring to Indian trade the benefits of a well-organised money market, the Reserve Bank would have to encourage member banks and induce them not to charge higher for bills in any event than the bank rate. This it could not do unless it offered a special rediscount rate to the member banks. It should have the authority to do this by law, as suggested in the above amendment.

291. While having the statutory authority, they would have absolute discretion. They would have discretion as to the amount of rediscount at special rates, which they will give to any particular institution, or of the total amount, which they will offer during any particular weeks or months or days. They would have the power to refuse this to any bank at any time. But when they are in a position to do so, when they can do so with advantage to themselves, it should be a matter of policy for the directors of the Reserve Bank to offer these special rediscount rates in order to encourage banks to hold bills and to hold more of them. It is to enable the banks to make a little profit by the difference between the rate, which they charge to their clients, and the rate they would be charged. It is in order to enable India to reach soon the desirable stage of development, when discounting charges on first class bills throughout the country, except in a condition of disturbance and crisis, should normally not exceed the bank rate. The result is well worth achieving, if it can be achieved. In my opinion it can be achieved without any special sacrifice on the part of the Reserve Bank, without any departure from accepted practice, and with perfect safety.* I strongly recommend the acceptance of this suggestion. It is of crucial importance to agriculture, trade and industry of this country as tending to bring down the price of loanable money. It would materially advance the development of banking in India and of that instrument of banking, which par excellence is the safest and soundest for a bank to invest its money, *viz.*, the trade bills. The result of the rejection of this suggestion would be, on the one hand, to drive the Reserve Bank more often into the open market to engage its funds in bills. Banks may not seek accommodation from it in the form of rediscount of bills, but loans, and may in their turn advance to their clients in the form of loans and cash credits. Those banks, who are able to take their deposits at much less than the bank rate, would be opposed to this

* The foreign "experts", whose opinions have weighed so heavily with the majority of the Committee in other respects, were on this important point not opposed to my suggestion.

suggestion.* The balance of advantage in this proposal would be for Indian banks. The charge to agriculture, industry and trade by way of discount on bills will be higher, if the recommendation is not accepted, and India will be as much farther off from the approximation to conditions in countries, which have a properly organised banking system, as ever.

292. *The Reserve Bank and competition with other banks:* The Hilton-Young Commission came to the conclusion, that a separate institution was required largely on the ground that the Imperial Bank could not carry out central responsibility side by side with ordinary banking at its numerous branches. An opinion counter to this was expressed by Sir Purshotamdas Thakurdas in his separate minutes as follows:—

"Whilst fully appreciating the reasons which have induced my colleagues to propose the creation of a new central bank, and recognising that this is perhaps the ideal system, in the special conditions of India I am of opinion that the ends in view, for as far ahead as we can see will be better served by developing the Imperial Bank of India into a full-fledged central bank. It is contended that if the Imperial Bank of India is developed into a central bank, some of its commercial activities will be curtailed. I apprehend no serious curtailment. On the other hand, I consider that such curtailment of the commercial business of the Imperial Bank which might follow its conversion into a central bank would conduce to the growth of new banking institutions, started by private enterprise in India.

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"My apprehension, therefore, is that either the Central Bank and the Imperial Bank will have to compete with each other, or the Central Bank will not find sufficient scope for business to employ its funds. Either result would, to my mind, be undesirable. My question, therefore, is: Why multiply, if it can be avoided, institutions, supported by Government balances?"† During the years, which have intervened, the demand for the Reserve Bank as a separate institution would appear to have gained strength. But, for India, it is the beginning of difficult problems and not the end. The foreign "experts" recommended, and the majority Committee have accepted, that the Reserve Bank should have powers to lend on liquid stocks, on goods in transit, and on goods warehoused against appropriate documents. They

	Per cent.
*From April 1929 to March 1930, the Bank rate in India has been stated to be 8, 7, 6, 5, 5, 5, 5, 7, 7, 7, 7, 7. (Monthly).	6·35* (average).
The deposit rate for twelve months of the Imperial Bank has been stated to be.	3½
The deposit rate of 'Exchange' Banks . . .	4—4½
The deposit rate of Indian Joint Stock Banks .	5—5½ and more.

† Pages 119-120, Report of the Royal Commission on Currency, 1925.

recommended this mainly on the ground that the bank will have to engage its funds and will have to make its authority felt by perfect freedom to come into the field, when it liked. A power, which is exercised intermittently is hardly effective, and in order to secure, therefore, some continuity, the Reserve Bank will have to build up a clientele of first class character, to whom they will give accommodation on these lines. I support this recommendation, mainly because in central banking, freedom to the central institution to do things; by which it can get control over the market, is absolutely essential. Restriction of such freedom in the interests of other banks is much to be deprecated.

293. On this principle, I wish to suggest a modification in section 17 (14), which reads as follows:—

"The borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed;

Provided that the total amount of such borrowings shall not at any time exceed the amount of the share capital of the Bank;

Provided, further, that no money shall be borrowed under this clause from any person in British India other than a scheduled bank."

In the Statement of Objects and Reasons on this, it was stated that

"It is essential that the Bank should have power to borrow in London in view of the obligation imposed upon it to keep the Secretary of State in funds, and it is necessary also that the Bank should be able to borrow in India so as to facilitate the control of credit. The limitation which this clause provides will prevent the Bank from using its power of borrowing in order to compete with other banks for fixed deposits."

The limitation, which has been put here, is not usually found in acts and charters of other central banks. In practice, I consider it very undesirable that there should be a statutory provision restricting the Bank's power to borrow in London to one month and in amount to the share capital of the Bank. The Bank's duty as Government bankers, to meet the Government of India's obligations in London might necessitate their borrowing at the other end. Their statutory obligation as the principal currency authority may also make it necessary for them to borrow. If this necessity to borrow is to be avoided, large chunks of reserves will have to be permanently located abroad. The limitation will weaken the Reserve Bank in matter of remittances both ways. In any case, there does not seem to be an important enough object in putting this statutory restriction, which appears to have been framed in the interests of the 'Exchange' Banks. The Board of the Reserve Bank may be trusted to realise their responsibilities and not to abuse the power given to them. I, therefore, suggest that the sub-clause be altered by substituting 'one year' for 'one month' and that both the provisos should be omitted.

In section 17, which deals with the business of the Bank, there is a restrictive clause, which confines the purchase, sale and discount of bills by the Reserve Bank, to those which are "drawn and payable in India". This restriction is, again, conceived in the interests of the 'Exchange' Banks and it prevents the Reserve Bank from dealing in import bills, which are payable in India, but not drawn here. Such a restriction is not desirable on the authority, which is charged with the maintenance of the exchange. It would also interfere with the development of rupee bills, the possibility of which has been discussed in paragraph 191.

294. Section 44 deals with the maintenance of compulsory cash reserve by banks. The schedule attached to the first bill, as has been already indicated, contained 10 British, 9 foreign, and 7 Indian banks. Later discussion in the Select Committee secured the addition of many more Indian banks. If becoming a member bank were considered the matter either of sentimental privilege or of advantage, there is no doubt that every banking institution would make an effort to get there. There are two questions arising in connection with this. Should there be a compulsory cash reserve? A provision of this kind is not usual with central banks on the continent of Europe. It would enable the Reserve Bank to have a good start off and is, therefore, recommended. As member banks are collectively, under the recommendations made in this report, going to get advantages, which will more than compensate them for this imposition, it is recommended that this provision should be retained. I am, however, opposed to the inclusion of foreign banks in the schedule. If they are precluded from taking Indian deposits in India, there would be no serious disadvantage to the Reserve Bank. If the legislature comes to the calamitous decision to allow them to continue to take such deposits in this country, the position, which will arise, needs to be analysed here. In order to enable the Reserve Bank to get hold of interest-free funds from the banks and to leave the banks no discretion in the matter, deposits should be taken from foreign banks as well, but the privileges extended to the member banks will have to be extended to them. Such a programme would be altogether inconsistent with a banking policy in India, as it is not the strong foreign banks, who need help, but it is existing and new Indian banks. Indian institutions alone could have preferential and exclusive claim to the concentration of Indian funds in the hands of the Reserve Bank of India. Apart from this negation of policy, the position of the Reserve Bank itself may be considered.* The foreign banks, having access to the London money market, are not going to be under the control of the Reserve Bank, particularly when the latter seeks to check the expansion of credit. They have never welcomed a central bank of this kind and it would be futile to expect them to

* The opinions of Mr. J. M. Keynes and Mr. Baster have already been quoted on this point.

fall in line easily.* The choice, which India should give to foreign banks, is deposits and rediscounts in India, or deposits and rediscounts in their home country. If they are allowed to have it both ways, they would effectively prevent the growth of Indian banking on the one hand, and make it very difficult for the Reserve Bank of India to function in practice. The plight of Government with regard to foreign banks in their Treasury Bills dealings in recent times ought to provide a lesson. The central currency and banking authority should not be at the mercy of foreign institutions. Logically, both deposits and rediscounts should be shut out from foreign banks in India.

295. From the apostles of reciprocity I have very little to fear with regard to the measure, which I am suggesting. When some of them trot out the bogey of retaliation, it becomes like a naked person, chaffing another for his immodest clothing! There are people, who would go further in discrimination, than I have suggested above, and would scrutinise the signatures on every bill in order to ensure that Indian resources are not availed of for supporting foreigners. Mr. B. T. Thakur's views in this connection would be of interest.

"The bills which should be admissible for discounts at the bank, should bear at least one Indian signature. Similar limitation should apply to the credit policy of the bank in general. The business of the bank should be primarily to facilitate Indian economic activities. This restriction is imposed on every central bank in every country. As the readers will have seen even, the Bank of England does not extend rediscounting facilities to the Indian

* Compare the position in Amsterdam.

"Especially in the last few years the Netherlands Bank has repeatedly shown that it seriously desires, as far as its position as the country's central credit institution and principles of sound policy allow it to do so, to co-operate with the other banks in trying to stimulate the Dutch acceptance business. The foundation of the acceptance companies has had the outspoken sympathy of the Netherlands Bank, and the Bank has at once declared itself ready, if so required, to rediscount their bills, provided that it approves of the character of the transactions concerned, and, of course, that the bills comply with the Bank's rules as regards discountability of bills in general. Originally one of these rules was that bills in which foreign interests were involved were eligible for discount only if the discounting bank could prove that the bills also served a Dutch interest. In March, 1925, however, this rule was altered, and the Netherlands Bank now only requires in cases like this that the bank in question in general keeps Dutch interests in view, and that the credits granted are not in conflict with Dutch interests. Very recently the Netherlands Bank has taken still another step. In alteration of the policy which it had hitherto followed in this respect, it decided in March 1926, to admit, on principle, to its discount, bills accepted or indorsed by banking institutions of foreign origin which have been established in the Netherlands after 1914. Under present circumstances this facility applies particularly and practically only to the German banking institutions in Holland. It is subject to certain restrictions among which is the condition that the banks in question must be organized as a firm or body corporate under Dutch Law."—"Foreign Banking Systems", edited by H. Parker Willis and B. H. Beckhart, in the chapter on "The Banking system of Holland", pages 763—764.)

banks. If national considerations do not regulate the credit policy of the bank, it is feared that the same state of affairs, wherein non-Indians get a preponderating portion of financial facilities, as has been the complaint in the case of Presidency and Imperial banks, may be repeated."*

Public opinion of the world will be with India on all occasions when measures are taken for conservation of her own resources and for their development at the hands of her own nationals. Give and take is undoubtedly the law of the world, but, before India can give much, she will have to bring herself up to a much stronger position in the field of banking. Conservative line of advance is, therefore, indicated. The benefits of new machinery and new measures should, therefore, go to Indian institutions only.

296. Section 17, sub-clause (3) reads as follows:—

"The purchase from and sale to scheduled banks and persons approved by the Board, in amounts of not less than the equivalent of one lakh of rupees, of the currencies of such gold standard countries, as may be specified in this behalf by the Governor General in Council by notification in the *Gazette of India*, and of bills of exchange (including treasury bills) drawn in or on any place in any such country, and maturing within ninety days from the date of such purchase, exclusive of days of grace; and the keeping of balances with banks in such countries;"

This relates to the purchase and sale of foreign remittance and the purchase and sale of foreign bills. The Reserve Bank, in my opinion, should have absolute power in law to deal in foreign bills and remittances with persons approved by the Board and in any amounts. The limit of Rs. one lakh has been conceived in the interests of foreign banks. Whatever practice the Reserve Bank board may fix normally, a legal restriction of this kind is not advisable. This clause is further defective, in so far as it will prevent the purchase by the Reserve Bank of 90 days sight bill, the 90 days counting from the presentation, and not from the date of the purchase. Under this clause the Reserve Bank will be free to come in the market and to build up its stock of foreign currencies as and when it likes. It would be advisable for the Reserve Bank not to enter the market merely at gold points, as was urged by foreign banks, but to keep normally in it. Dr. Trip, in stating his views to the Committee, was very emphatic with regard to the need of absolute freedom to the Reserve Bank to strengthen its position in the matter of foreign currencies at any time and in any manner it chose.

297. I recommend an additional sub-clause (16) under clause 17, as follows†—

(16) "The acting as agent for any member bank in any place outside India to sell foreign currency or pay out in foreign currency on its behalf, to collect bills in foreign countries and as its agent, against adequate securities in India, to accept bills drawn on it or on its client."

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* "Organization of Indian Banking," by Thakur, page 379.

† The final sub-clause 16 would become 17.

The object of inserting this is that in the bill as drafted, the contingency was not contemplated. Sub-Clause (13) gives power to the Reserve Bank to act as agent of any other bank, which is the principal authority of a gold standard country. The question of the Reserve Bank acting as agent of member banks and for the purpose for which I am suggesting, never came under review. The foreign "experts" objected to this on the ground that,

> "the activities of the Reserve Bank in the field of foreign exchange must on principle be restricted to what is necessary for performing its principal duty, *i.e.*, to keep the currency of the country at par with gold in any case at a value between the upper and the lower gold points. It would be dangerous in our opinion to encroach on this principle by inducing the Reserve Bank to place part of its foreign assets at the disposal of member banks on behalf of their foreign exchange business."

My object in making this recommendation is to encourage Indian joint stock banks to attempt such foreign exchange business, as could come easily within their reach through their own clients, using the organization of the Reserve Bank for this purpose, on condition that the Reserve Bank act merely as agents and take no risk whatsoever. The Reserve Bank would have to get very adequate securities from member banks, on whose behalf they would do this work. The inclusion of the sub-clause in the law would be only permissive and the authorities of the Reserve Bank would be always able to determine whether and when they should do this work. I cannot help thinking that the opposition to this is again in the interests of the foreign banks. The fear that the Reserve Bank's position in the matter of foreign currencies might be weakened, would depend on the extent and frequency of the operations and also whether the Reserve Bank would have prior knowledge of the business coming to it, or whether it would come as a surprise. If the Reserve Bank were in a position to estimate roughly what they might be called upon to do, they would be always able to provide for it. They would always have the option of declining to do anything abnormal, or to do anything at an abnormal moment. Indian joint stock banks are being promised a bankers' bank in the Reserve Bank, but it would be a pity, if the Reserve Bank could not do for its members simple agency work without any risk to itself.

298. In clause 17, dealing with the business of the Bank, there is a limitation with regard to the maturity of bills purchased by the Reserve Bank in the case of agricultural bills of 6 months. It was pointed out to us that this would interfere with the rediscount of agricultural paper of a certain class, and it was suggested that the period of maturity should be extended to nine months. It was similarly suggested that in 17 (2) (b), the restriction of agricultural bills to $\frac{1}{4}$th of the total bills at any particular time might operate, if the total bills in the portfolio of the Reserve Bank were not considerable, in restricting agricultural credit. Central banks in other countries have been known to work satisfactorily without meticulous restrictions of this kind on their discretion, and it is recommended

that the powers of the Reserve Bank of India should not be fettered by law and discretion should be left to the Board to decide what they could do best, consistent with the safety of the institution, to discharge the obligations laid on them.

299. *The Reserve Bank and 'Indigenous' Bankers.*—Against the progress of western banking generally, and foreign banks in particular, there are signs that the indigenous system in India is weakening all round. In many places, it has been wiped out. In other places, where bankers have to reduce their banking activities, they are increasing their trading activities. A strong enough support should, therefore, be given for these banking activities. Any measure, which would strengthen the indigenous system, will be justified not merely on the ground of sentiment, but on the business ground that the private banker in India brings to his task a close local knowledge of things and persons, that his costs of operation are low, and that the Indian clientele would find dealings with him more satisfactory. The following scheme is, therefore, recommended.

Those private bankers, who have a capital of not less than two lakhs of rupees, whether they are taking small or large deposits, or no deposits at all, should be eligible for membership of the Reserve Bank of India, on condition that they agree to confine themselves to banking proper and to withdraw completely from trading activities. They will have to satisfy the Reserve Bank with regard to their activities. They will have to keep such books of account and in such form as the Board of the Reserve Bank may direct, and they will have to submit such periodical statements to the Reserve Bank authorities as may be called for. It was urged that any provision for compulsory deposit of cash with the Reserve Bank should not apply to the private banker. This concession is recommended, more particularly because it has been disclosed that the deposit activities of the private banker have seriously suffered in recent times. Under this scheme the private banker will expect assistance for discounting his bills. It is hoped that the benefit, both of the low rate and of the larger volume of credit, will reach through this class, the Indian commercial community, to whose wants they generally cater. It is also recommended that all, who are enrolled as members of the Reserve Bank, should get the benefit of Bankers Books Evidence Act. It is implied, but it may be stated, that the benefit of cheap remittance facilities available to member banks through the Reserve Bank or otherwise, would be made available to this class.

300. There is an enormous potency for good in this measure, but it would be premature to assess the results. The disintegration of the Indian banking system having started, whether such a measure will effectively stop it, or will only ease the final stage, it is difficult to say. I have a strong feeling that the wealth of this class has been reduced very much. I have, therefore, suggested the limit of two lakhs of rupees, instead of three lakhs, which appealed to my colleagues. A large class, whose resources would be under this limit, will still be left out without any direct assistance from the

Reserve Bank; some of them under the scheme set out in this report will get advantage as guarantors from the land mortgage banks. But, those, in whose activities commercial banking predominates, and who cannot, on account of the limitation of their own capital, enjoy directly the facilities created through the Reserve Bank, would have to get into similar relation with joint stock banks operating in their part of the country. This is one of the strongest arguments in support of the special rediscount rate suggested in paragraph 289. The business of acceptance between the trader and the discounting bank is important in other places in the world. It has to be developed in India. The smaller private banker is eminently fitted to do this through his local knowledge. Sir Osborne Smith, in reply to a question of mine, indicated that he envisaged development on these lines.

"Discount houses (which are more or less essential to a stabilised bill market) might be built up from reliable native bankers of unsullied reputation and with substantial capital, and upon a deposit of a cash guarantee."

This eventuality can materialise only, where banks begin to see in the private banker an ally, a guarantor, and a party, who shares the risk of the whole business with them, and not a competitor.

301. *The Reserve Bank and Government's savings bank deposits.*—From the establishment of the Reserve Bank, it would be noticed that hopes are being entertained for increased volume of credit in the country as well as for reduction of rates in agriculture, trade and industry. In what directions and how, this assistance will reach, has been indicated in different parts of the report. Money will be wanted for these purposes. All useful suggestions are limited by available resources. The question naturally arises, whether the resources of the Reserve Bank, as it was projected in 1928, would be adequate for these objects. The use of currency reserves is very rightly hedged round with many salutary restrictions. Apart from its own capital, the Reserve Bank will have compulsory reserves from member banks, and they will have Government balances. There will be certain funds, *quasi*-public as well as private, on deposit without any interest. These will be the main sources of funds for the Reserve Bank.

The importance of adding to these resources, if possible, has impressed itself on my mind. Simultaneously it was impossible to ignore the general feeling of many witnesses, that in recent times Government borrowings had diverted funds from the use of trade and industry. The general topic relating to Government funds is dealt with in paragraph 363. But the position of the Reserve Bank will be materially strengthened, if Government can show the self-denial and allow the balances from post office savings bank and the sale of postal cash certificates to be transferred to the Reserve Bank and to be made available through it to trade and industry. It would, of course, follow that the Reserve Bank would have to arrange the terms with the post office for the work done and will be responsible for the payment of interest. The benefit to trade could

be expected from the accretion of new money, since moneys already used up by Government from the total outstanding under these two accounts could be only returned by them to the Reserve Bank gradually and subject to their financial convenience. Whether these balances should be merged with the funds of the Reserve Bank as a whole, or should be earmarked for specific purposes, would be a matter for the discretion of the Board. The earmarking will be desirable, because there is some feeling at present in the provinces that funds collected from their savings are being taken away and not being made directly available, to those who are in need of money in these places. The proposal would involve settlement of many details, but it is put forward here in principle, and it is recommended that it should receive close examination. It has much merit, because the power of the Reserve Bank to do real good will depend on the extent of facilities, which it can normally give. The withdrawal of these facilities, it may be noted, is a potent weapon in the hands of the Reserve Bank for the control of the market, and from that point of view also, increase of resources in the hands of the Reserve Bank is very desirable. Consideration, on the other side, would be those of the convenience of public finance. It may be urged that a measure of this kind would tend to raise the rates, at which Government is obliged to borrow, on account of one source of strength to Government finance being eliminated. It may be pointed out that the ultimate strength of Government finance lies in the improvement of trade and industry and in the credit facilities available to them, which the Reserve Bank is expected to create and to add to. The several measures suggested in this report will collectively strengthen the finances of Government in so many directions. It is, therefore, hoped that this measure would be accepted.

302. *Reserve Bank and Bullion.*—The Reserve Bank bill sought to impose obligations for the purchase and sale of gold bullion under certain conditions and on certain terms.* In order to check the

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* "The currency authority will be statutorily required to hold reserves sufficient to enable it in all circumstances to sell gold for export when the rate of exchange falls to the point at which export of gold is required in order to maintain the fixed equation of 8·4751 grains of gold per rupee, and to import gold and buy gold otherwise imported whenever exchange rises to the point at which the import of gold is required to prevent the rupee from rising beyond the equivalent of 8·4751 grains per rupee, that is, to the gold import point, or roughly **1s. 6$\frac{3}{16}$d.** per rupee. The currency authority will buy gold tendered to it at any time by giving one rupee for every 8·4751 grains offered, but it will not be compelled to sell gold for non-currency purposes at a rate which throws upon the taxpayer any portion of the expenses of import."

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"If the currency authority were required at all times to give 400 oz. of gold in exchange for an equivalent in legal tender at par, whatever the rate of exchange between the rupee and other gold standard currencies, it would be the cheapest market for gold in India for non-currency purposes at all times when the rate of exchange was below the gold import point. Either therefore it would have to try and keep the rate of exchange permanently at the gold import point, which would be undesirable in many ways, and would certainly tend to keep money tight in India, or it would have continually to import gold for non-currency requirements at the expense of the taxpayer and to the detriment of the effective working of the Indian gold bullion market. The

tendency of hoarding gold bullion in this country, the Hilton-Young Commission recommended the issue of gold cash certificates. This is a measure, which should be adopted, as soon as the Reserve Bank is established. The Bank will in any case carry a stock of gold as part of its reserve. It would have to carry more gold in relation to the outstanding gold certificates, but there will be an economy, on the expectation that holders of certificates will not always ask for gold, but will in some cases renew the certificates. The question of gold is of supreme importance to the Reserve Bank of India, not merely from the point of view making internal currency convertible into gold, as and when the conditions permit, but primarily from the point of view of being able in times of difficulty to discharge India's foreign obligations without the exchange being weakened. The ability of the Reserve Bank to secure fixity of exchange would depend largely on credit, and its credit will depend largely on the amount of visible gold it carries, no matter on whose account and how. The Bank of England has in the past derived strength from gold earmarked for India, because it was the lump figure of the gold with the Bank of England, which came in consideration in foreign markets.*

303. The total imports of gold in India have attracted much notice. They were as follows:—

Year.	From and to foreign ports.		
	Imports.	Exports	Net imports.
	Rs.	Rs.	Rs.
1918-19 . .	2,27,63,000	7,84,01,000	—5,56,38,000
1919-20 . .	48,25,16,000	12,92,13,000	35,33,03,000
1920-21 . .	23,57,38,000	21,46,56,000	2,10,82,000
1921-22 . .	13,82,04,000	16,68,49,000	—2,86,45,000
1922-23 . .	41,32,39,000	13,31,000	41,19,08,000
1923-24 . .	29,25,32,000	6,68,000	29,18,64,000
1924-25 . .	74,28,98,000	36,32,000	73,92,66,000
1925-26 . .	35,22,99,000	37,53,000	34,85,46,000
1926-27 . .	19,50,12,000	10,07,000	19,40,05,000
1927-28 . .	18,13,44,000	3,44,000	18,10,00,000

Commission therefore propose that the price charged for gold by the currency authority should include an allowance for the cost of importing gold, and should be so fixed as to set the currency authority free from the task of supplying gold for non-monetary purposes."—(Sir Basil Blackett's Delhi University Speech, 1926.)

* "A higher proportion of *gold* kept in London may, on the other hand, apparently enable the Empire Central Banks to exert considerable influence upon the policy of the Bank of England, whose reserve ratio and therefore discount policy, might be exposed to interference, due, for example, to large gold exports for urgent use overseas. And if this sort of influence could be brought to bear wilfully and very powerfully, it might so affect bank-rate as to alter the margin between home and overseas money rates and induce or repress the flow of funds to the overseas money rates and induce or repress the flow of funds to the overseas centre. But this is hardly likely to occur, because in general more than half of the gold reserves available will be held and used in the country where they belong and the rest will not be large

From the moment of the purchase of the gold, as the trade is organised at present, the gold remains in private hands. It is in the hands of the importing bank or the bank of the private importer, generally a foreign institution. After it arrives in this country, sometimes it is taken delivery of and held by the importer, and sometimes it becomes the subject of a loan and is held as security by a bank. Its distribution in small quantities for the actual user upcountry then goes on, but there is a lapse of time. It was stated to us in evidence that this period would be anything from two to four months, but would vary at different centres. Roughly therefore, taking it from the moment of purchase in a foreign centre, there will be anything from 25 to 33 per cent. of the normal import in private hands. If this were in the hands of the Reserve Bank, it would strengthen their gold position enormously. The gold is for consumption in India and it is paid for by the people of this country. It would, therefore, be proper, if the full benefit of it, at least prior to its passing out in the interior, were retained by the central banking institution.

The bill of 1928 gave power to the Reserve Bank to buy and import bullion on its own account. It also authorised the Bank to give loans against gold bullion. I would go one step further and would recommend that the Reserve Bank of India should have the monopoly of the importation of gold for being sold in the market as bullion.

As I am opposed to the creation of monopolies in the banking field generally, I may say that I have not come to this conclusion lightly. A strong Reserve Bank on sure foundations has been accepted as a desideratum, and every avenue must be explored, which will give strength to the Reserve Bank.

It will increase the visible stock of gold with the Reserve Bank by amounts, which are in the course of purchase, in transit, or in storage, or, to express it differently, by making the continuous flow of gold bullion in India through a single channel, the Reserve Bank would have a certain additional amount in hand at any particular moment, which they would not have had but for this provision. It will give them strength not merely in their gold position, but also with regard to their obligation in connection with Government remittance and in connection with the maintenance of the exchange.

304. Opposition will undoubtedly be raised to this proposal by the 'Exchange' Banks, who derive profit from this trade and

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enough to produce much effect. Further, the Currency and Bank Notes Act of 1928 provides for discretionary expansion of the Fiduciary Issue in contingencies of this sort. The size of and the movements in the Indian *Gold Standard Reserve* (an extreme case) are an admittedly important factor in money market conditions, but the adoption in India of the Gold Bullion Standard and the operation in England of the 1928 Act, will relieve the situation considerably and the subsequent London gold holdings of either the Indian or the Dominion "Central" banks should not normally create disturbing influences." (Baster, "Imperial Banks" page 219).

strength from remittance on gold account, but this will be interested opposition. Many questions will be raised with regard to the detailed operation of this monopoly. The monopoly would be only with regard to importation for resale as bullion in this country. It would only stop the passage of imported bullion into the market except through the Reserve Bank. Many detailed questions, such as the manner and method of sale, the facilities which large bullion dealers in the country should receive, and the relation in which they should stand with the Reserve Bank, the price at which gold would be sold, and the power to the Reserve Bank to vary this price in the event of an exchange crisis and the like, would have to be settled. I, therefore, recommend that, if *primâ facie* the object, which is sought in this provision, of strengthening the Reserve Bank both with regard to their gold position and in the exchange market, is approved, the Finance Department should invite a conference of important bullion interests in the country to make arrangements, which, consistent with this object, interfere as little as possible with their trade.

305. *Reserve Bank and Remittances.*—The ideal is to eliminate remittance charges altogether. India is still far from this but this is an accomplished fact elsewhere in the world. Not only has free remittance been established in the United Kingdom but it is being suggested by responsible people for the whole empire, as will be seen from the following:

"The project in its modern form was first mooted (very appropriately) by Mr. Goodenough, Chairman of Barclay's Bank, in his Annual Speech in 1918.

'Just as in the past there were questions of exchange between London and the various cities of the kingdom which by the expansion of our banking organization were swept away to the greater advantage of trade within the kingdom . . . . . so should we now recognize that the extension of banking organization and the maintenance of fixed rates of exchange within the British Empire will give to our Dominions and Colonies a substantial preference and would serve to consolidate and promote trade within the Empire.'

"This was supported by Professor Foxwell. 'Mr. Goodenough is really only asking us to go a little further on well-proved lines. He proposes to extend to the whole Empire the service of free remittance, which the later development of our banking system has made so perfect within the United Kingdom.' The recent amalgamations, giving English joint-stock banks control over institutions, operating in all parts of the Empire seem to have made this more practicable. Fixed exchange would certainly strengthen and greatly facilitate trading relationships within the Empire and it would probably have the further not so obvious but none the less important effect of stimulating the movement of floating capital to and from the home country."*

* "The Imperial Banks", by Baster, page 252.

The remittance charges on the flow of funds from one centre to another offer a serious interference to the mobility of loanable capital. It is the remittance charges, which would to some extent account for differences in interest rates on short-term loans for the same class of borrowers prevailing at difference places. The Imperial Bank has rendered valuable service in this direction at the instance of Government.* The prevailing rates in India are still as follows:—

For amounts of Rs. 10,000 and over . .	$\frac{1}{16}$ Per cent.
For amounts exceeding Rs. 1,000 but less than Rs. 10,000	$\frac{1}{8}$,,
For amounts less than Rs. 1,000 . . .	$\frac{1}{4}$,,

and for banks (this does not include indigenous bankers) at $\frac{1}{32}$ per cent. for Rs. 10,000 and over, between places where they have branches.

The problem is more difficult in India than elsewhere, because of the distances, where it comes to an actual transfer of funds. As the use of credit instruments grows, the difficulties of the problem would be seriously reduced. As the first step in the meanwhile, it is recommended that the Reserve Bank should undertake in practice the obligation in the case of member banks and bankers, who have accounts with it, to transfer funds from one branch of the Reserve Bank to another free of charge. This is, of course, with regard to transfer by letter.

It is deplorable that the Imperial Bank, which gave this facility to its clients, has withdrawn it, and the other banks, who follow the model of the Imperial Bank, are also charging their customers. Whether the inspiration came from the post office, which has vested interests in the money order business, or whether it was an independent decision by the Imperial Bank on grounds of their own business, the Committee had no means of knowing. The public have been deprived of a very valuable convenience and a retrograde step has been taken in banking by the withdrawal of these facilities by the Imperial Bank. It should be the task of the Reserve Bank to see that these facilities are restored. The privileges, which the Reserve Bank would give to their member banks, might to some extent be transferred by these banks to their own clients. Whoever does

* "The last Report of the Controller of Currency (pages 24—25) shows how striking has been the recent increase in the use of these forms of remittance. The facilities offered consist in the first place of supply bills which are bills of exchange drawn by treasury officers or Deputy Controllers of the Currency on other treasuries, and paid out of treasury balances. The system is cheap and practical and works well for the remittance of small sums. Remittance Transfer Receipts and Bank Post Bills are used for the remittance of funds for Government or *quasi*-Government purposes, the bank post bills being used for payment of land revenue. The Imperial Bank is at present considering whether this system, which is at present confined to Bengal, might be extended throughout India."—(Sir Basil Blackett's Delhi University Speech, 1925.)

agency business for the Reserve Bank, should, however, have this obligation imposed on him as part of the contract for agency.

306. *Reserve Bank and the Treasury work.*—It has been suggested that the Imperial Bank will be doing this work and is most fitted to do this. In fact it was put forward that it alone could do this. It was also suggested that a special act would be necessary even after the Reserve Bank was established, because the Imperial Bank would be doing this work. In this matter my view is that the Reserve Bank authorities would be the best parties to fix up suitable arrangements for conducting their obligations under their Act and for choosing such agents as they like. Amongst such agents may be the Imperial Bank in many places, if suitable terms could be arranged. Amongst such agents may also be joint stock banks at many places including places, where there are branches of the Imperial Bank. Sir Osborne Smith admitted in his evidence before us, that if a joint stock bank acted as agents of the Reserve Bank in one or more places, there was no need on account of its acting as agent to have a special constitution or a special act.

Since the Committee discussed, not the terms, on which the Imperial Bank could do agency work for the Reserve Bank, but the inducement to the Imperial Bank to enter the field of foreign exchange business in the form of agency work of the Reserve Bank, it is obvious that the agency work of the Reserve Bank is sought after and is considered attractive. All fields will be open to the Imperial Bank, when it is released from its restrictions. It is an idle speculation for any one as well as for our Committee, as to what this premier institution in India will do. It is altogether futile to seek to lay down the law and it is equally futile to determine the inducements, on which its activities could be guided in one or the other channel. If the Imperial Bank after its very strong position still requires any inducements to do any work, which is not unprofitable, it may be said that the outlook for Indian banking in all directions is very poor indeed. On the ground that the Imperial Bank is strong and mature, I urge that it should be self-reliant. On the ground that it is dangerous to create vested interests, I recommend that no exclusive privileges of any kind should be given to the Imperial Bank. Consideration to its reasonable representation as the premier banking institution in India is one thing, but exclusive privileges, which are not open to other banks, is an evil to be avoided.

The Reserve Bank authorities should be left entirely free to fix up suitable agency arrangement on suitable terms. That such arrangement should be for twenty-five years, as was provided in the draft bill, which came before the Assembly, is opposed to all considerations of business as well as public policy.

307. *Organization of the Reserve Bank.*—It is recommended that the Reserve Bank should have a branch at the headquarters of each province, or at least one place in each province, which may be of outstanding commercial importance. A desire in this connection

has been expressed by the United Provinces Committee,* and such a measure is sure to meet with general public approval. The Reserve Bank itself might find this an administrative convenience, which would more than compensate it for the cost. From the public point of view, it would bring rediscount, remittance and other benefits in the interior, particularly in the case of the private banker. Rediscount facilities could not otherwise be extended to parties, who have no establishment, where the office of the Reserve Bank is. It would be obvious that the granting of rediscount and other facilities through the agents of the Reserve Bank raises many difficult questions. It is essential that, if the Reserve Bank is to play a real part, it should come in close direct contact with parties in the interior and its information with regard to them should be first hand. Several important functions are being recommended by the Central Banking Committee to be placed in the hands of the Reserve Bank. For example, they are being made the authority, whose approval would have to be secured for opening a branch in the interior by any bank. Provinces in India are large, and in the event of Federation, they might become larger by the inclusion of those Indian states, which fall geographically and economically inside them. By increasing the number of branches, so as to give at least one to each province, instead of having them confined to the ports and to a small number, as suggested in the bill of 1928, the gain from the banking point of view would be real, but the Reserve Bank might also derive strength in their function as currency authority by this measure.

The work of the Reserve Bank, as outlined in this chapter, would need not only the statutory separation of issue and banking departments, but the establishment of several departments on the banking side, attending to their respective task and yet properly co-ordinated with one another. In the matter of agriculture, there will be dealings with the co-operative banks and the co-operative movement generally. There will be the whole task of the creation of land mortgage debentures and of the transmission of these funds through suitable institutions, as outlined in chapter VI. There will be the ordinary relationship with the Imperial and other joint stock banks. There will be the ordinary watchfulness over the exchange, and the special work in connection with the agency of Indian joint stock banks, as suggested, and the foreign exchange work either directly or through a special institution set up. There will be the administration of the savings bank deposits. There will be the entire question of the importation of gold bullion and its distribution to the market. These points are stated here not with a view to present an exhaustive scheme, but with a view to give a general indication of what is expected of the Reserve Bank and what it can achieve.

* The Committee contemplate that at the top, there should be some type of central bank such as that recommended by the Currency Commission. There should be a branch of the bank in every province. Since it must necessarily assume control of all treasuries, sub-treasuries and currency chests, it must have an agency or sub-agency in every district.—(U. P. 481.)

308. It is suggested that the Reserve Bank bill should be redrafted, before it is considered by the legislature. Important events have occurred in the world since 1927, when it was first introduced. There has been a new law in Holland, which requires foreign banks to be registered under the Dutch law, or forego the privilege of a rediscount. There has been a new commission on the operation of the South African Bank. There have been somewhat tragic developments in Australia. There has been a very great crisis in the United States, in the wake of which all countries in the world have been drawn directly or indirectly. There is the general scramble for gold. There has been great accumulation of gold by the Bank of France, which, non-French critics are regarding as redundant. In India itself, there have been marked changes in many directions. The period of contract with the Imperial Bank has ended. Above all, there has been the survey of banking conditions at the hands of Provincial Committees and the Central Banking Committee, which has brought out, amongst other things, that the banking functions of the Reserve Bank of India did not receive an attention commensurate with the importance of the subject. It has further been brought out that some of the restrictive provisions were not only unusual, but were put in, in the interests of foreign-controlled banks. It is hoped that it will be borne in mind that the Reserve Bank of India should be constructed in a manner, which will satisfy the needs of India.

CHAPTER XVIII.

BANKING NEEDS OF INDUSTRY.

309. How much finance industry in India will require, how much of this will be long period and how much for current needs, how much of this can come from existing banks, and whether it would be necessary to set up special institutions for this purpose, are questions, which cannot be answered without some idea of the general conditions, in which industry operates in India. The success of industry depends on many factors, of which adequate finance is one, but the cause of weakness and failure of Indian enterprise in several directions may be found in the inability of the entrepreneur to secure on reasonable terms, the use of funds required.

The attitude of Government to nascent enterprise has a very direct influence on the growth of industry. The state represents the final and superlative power in a community. It can use this power to destroy industry, as was done in the days of the East India Company in India. It can refuse to use this power and see local efforts destroyed by unfair competition from outside. It is a great thing, if there is even the hope that, in case of need, industry could look up to the state for protection against unfair competition of foreigners, or against any other temporary phenomenon, destroying the earning capacity in the country, not only of the weakest section of the industry, but of those, who can by all tests claim to be well organized. Where there is thus an organic relation between industry and state, where there is a living response from the state to the needs of industry, where the machinery for securing detailed examination of such needs is promptly available, where public opinion is enlightened enough to support a definite industrial policy, and where the administrative machine acts quickly, without the dilatoriness associated with red tape, the growth of industry may be assured, if other conditions are favourable.

310. Whether in India the state evinces this living concern for the growth of industrial enterprise, is a question, that cannot be answered in this report. In the past, the Indian state policy was undoubtedly dominated by ideas of free trade, which also coincided with the comfortable notion of India producing the raw materials and affording a standing and permanent market for the manufactures of the United Kingdom. So vehement and real was the insistence on such reservation, that the Government of India, in their efforts to manufacture ammunition in this country for their own use and merely out of regard to military considerations of

defence and self-sufficiency, found themselves faced with truculent agitation from Birmingham. As industry controlled by non-Indians grew, the latter were able to secure increasing attention from Government, in those directions, where they experienced difficulties. The Industrial Commission was appointed in 1916. It led to many administrative measures including the creation of new posts, the account of which in various provinces is contained in the Provincial Committees' reports. There will be diverse opinions as to, whether the results produced are commensurate to the expenditure incurred and the efforts made. The most direct expression of state policy in regard to industry as embodied in the various protective measures passed since 1924, is in the acceptance of the policy of discriminating protection,—a policy, the absolute failure of which to achieve results, has been repeatedly noted. It was referred to by no less a party than Sir Padamji Ginwala, who, by his long association with the Tariff Board, which is the means adopted for implementing this policy in specific cases, could speak with unassailable authority. There is now little doubt, from the purely economic point of view, that the so-called protective measures adopted by Government have had the result, and were possibly projected with the intention, of securing a large accession of revenue under the head of customs, and that they have invariably fallen short of the primary aim of protective policy, which is to give such support to existing industries as to secure their expansion, as to attract new capital in the field and new ventures, and to create internal competition in the shortest period of time. It is by means of this internal competition and by a careful watch that pooling and price-agreements are not made, that the interests of the consumer would be secured. Instead, the consumer has loomed large in all these discussions right at the beginning. No greater misdirection of effort could be seen in a country, where, according to the Industrial Commission, every other requirement for industrial self-sufficiency was present. Those who noticed the possibilities of new industries, that required assistance in their pioneer and initial effort, could not approach the central government at all. With regard to others, have Government always and promptly referred to the Tariff Board applications for protection? Have the Tariff Board always acted quickly? Have Government accepted the advice of the Tariff Board in all cases? Have they in all cases even published the report of the Tariff Board? Have they ever erred on the side of giving too much protection and really fattening any particular industry, to which they claim to have given protection, or, have they always erred on the other side? Has official lead to non-official opinion been always sound, or, has it generally sought out the divergent groups of public opinion and set them one against the other with the result, that proposals, which initially did not go far enough, sometimes emerged in an attenuated form? This report is not the place to answer these questions. The absence of an industrial policy is much more noticeable in India than its presence. Rightly or wrongly, Indian opinion firmly holds that the explanation for this is to be found in the overwhelming influence,

which foreign vested interests enjoy with those, who govern and direct this policy.*

The heavy exports of India have to be carried away in ships, which have to come back here, and the problem of return freight for such ships has set shipping interests, largely British, dead against the growth of Indian industry. This would explain, why protective measures became revenue measures and did not go far enough, so as to involve increased production, because increased production would have taken away freight. It would also have infringed on the profits of parties concerned in the trade, as well as on the earnings of insurance companies and foreign banks engaged in handling this traffic. The entire bias of vested interests in foreign banks has been against the growth of local manufacture. The links of such opinion with Government, through the Chambers of Commerce in India and in England and through the 'City' opinion at Whitehall, have already been indicated elsewhere. The opposition to the growth of industry in India by European trade, including shipping, insurance and banks, has been felt sometimes even by foreign industrial enterprise in India. It has been very real.

311. *Why industry in India in Indian hands is not extensive.*—It becomes necessary to mention some of these factors to counteract the mischievous effect of the explanations usually given, for the fact that India is backward in industry and that the share of Indians in such industry as exists in the country is very small. The explanation takes many forms. The dearth of capital in India is mentioned. The whole question of savings is examined in another section, but one would think it extraordinary that a country, which Sir Basil Blackett expected to be an important creditor country capable of sending capital abroad, should, by other people on other occasions, be characterised as lacking in capital. 'Dearth of capital' is a complaint even in rich countries and so postulated, it is only a relative truth applicable to all countries. It is further said that Indian capital is shy. Neither the dearth of capital, nor its shyness is evident, if the amount of Indian money invested in various quarters and lost since 1900 is calculated. Human nature amongst those, who possess a surplus and who seek investment, is not different in India, from what it is elsewhere, and the same considerations of safety as well as higher return appeal

* The existence of this feeling and the supreme need of absolutely satisfying Indian sentiment by the transfer of control in the hands of ministers responsible to the Indian legislature, has been recognised even by the Government of India in their Despatch on Constitutional Reforms, 1930.

"Even under the present constitution an attempt has been made to meet this demand (para. 182). * * * So long as the power to direct policy in the economic sphere rests with the agents of Parliament, it will be impossible, we fear, to combat the suspicion, however unjust, that the interests of British trade weigh more with the Government than the interests of India. In itself we regard this as a cogent reason why commercial subjects should in future be administered in accordance with the views of the legislature (para. 188).

to the Indian as to the foreigner. The attempt to ascribe to the Indian in business matters, a different psychology is generally made to divert attention from, and to conceal the privileged position of the foreigner. Starting from the fallacy, that there is dearth of capital in India, it is usual to urge the desirability of getting foreign capital and of leaving the field free for such foreign capital, so that it may not cease to flow. The question of foreign capital in India is so vast that it can hardly be dealt with here. How much of the foreign capital represents savings prior to the initiation of the enterprise and is, therefore, real, and how much of it represents the capitalised value of opportunities and the reinvestment of large and blind profits, which some of these enterprises were enabled to make, it would be difficult to say. Under what conditions the entry of foreign capital in a country is safe for that country, has to be determined, and the direct and indirect consequences of the creation of vested interests have to be studied.* In any case, it would be preposterous to allow foreign capital to enter in preference to Indian capital. It would be a recondite examination, if one were to ascertain how much Indian capital, there is as a matter of fact in enterprises, which are considered foreign, and whether the larger problem is not of foreign control rather than of foreign capital.

312. Apart from these factors, the explanation of the paucity of industry under Indian control in India is sought in the backwardness of the Indian, in his lack of enterprise and in his peculiar social conditions. Adverse critics have not even stopped at this, but have dwelt on the unreliability and dishonesty, the slothfulness and the carelessness of the Indian. While there may be room for moral improvement of a community at all times and in all countries, and for improved outlook as well as for increased efficiency, an exaggerated emphasis on such facts would neither reflect a true state of affairs, nor would it serve any useful purpose, where more direct economic reasons are available. Where industry under Indian control has grown, it has grown vigorously and it has survived many crises. A study of its inception and progress at the hands of the same Indians, who share the mental formation and the social background of the nation, should dispel any unnecessary pessimism and should prove the unreliability of this particular line of attack. Indians have shown enterprise in many directions and are showing it, but the success of an enterprise lies, as much in the constructive impulse and effort of the individual, as in the helpfulness and general appraisement of the atmosphere around him and the conditions, in which he has to work. To give only one illustration, it may be found, how the chilling effect of neglect and discouragement from the top can touch an industrial venture at every point of its contact with authority in the customs, railways, income-tax, in the administration of factory laws and boiler inspection, in municipal and other assessment, in the purchase of the

* "The vested interests created by external capital have a tendency to acquire enormous political influence, which is usually exercised for the purpose of maintaining the *status quo* and of vigorously resisting any political progress."—[Para. 17 (*c*).]—(Report of the External Capital Committee.)

products for public requirements and public departments, in the arrangement of those numerous details regarding land, sidings, mineral and other concessions, and in a thousand and one ways. Whether Indian enterprise in these respects has received the same facility, the same courtesy and the same consideration as foreign enterprise, is a question, which I shall not answer at this place.

The formulation of a definite industrial policy is called for with a clear reference to Indian industry under Indian control. It is only after this, that in various directions, the administrative machine and its human counterpart can adjust itself, so as to make the path of industry smoother. Failures of industries in the past have not only involved large amounts of public money, but large sums, which went out for the purchase of machinery and equipment and plant from India. That such equipment and plant in some cases remained unused and was ultimately sold as scrap, shows the extent of existing disorganization in the country. All this has a most direct bearing on the flow of capital in industry. Until it is recognised that the prosperity of the community, which includes scope for employment, is bound up with successful enterprise in the country, and that in the failure of such enterprise, not only the parties directly concerned, but the community lose something, no improvements will be forthcoming. Until then industry must find it difficult to break through the perversion of economic doctrine, which has taken place. When the railways of the country are asked to be run on commercial lines, what is desired is the elimination of red tape and unbusinesslike methods in their accounts and administrations. Instead of this, we find the railways pleading this as an excuse, not only against purchase of locally made articles but against all suggestions of readjustment of rates, calculated to secure advantage either to Indian agriculture or to Indian industry. The railway rates policy, already criticised in many places, will be found to be based on the inevitability of foreign trade, almost to the extent of sharing the anxiety of foreign business interests for the maintenance of that trade. It is not yet recognised in high quarters that the growth of industries in India and the retention of the profits of these industries, would react beneficently on the railways themselves, and that to that extent, the interests of the Indian railways are not identical with foreign interests in trade, shipping, insurance, and banking.

313. *Relation of industry and capital.*—The importance of the growth of industry, as it would react on the available capital of the country, has to be elucidated. It has been estimated that a motor car, for which the Indian purchaser pays Rs. 5,000, has primary raw material going into the manufacture of its various components, such as wood, steel, rubber, copper, ingredients of glass and paint, leather, and chemicals, of Rs. 50. Many of these are produced in India. The balance, therefore, represents the multiple manufacturing cost, trade, transporting, retailing and other profits, including the payment for the labour involved. That not merely in cars but in a million manufactured articles, India should continue to

pay all this and create not only employment elsewhere, but give rise to profits, savings and capital, which India needs so much for herself, is a position, which can be accepted only so far as and when it is unavoidable. That it is avoidable by a more active state policy, which would co-ordinate Indian efforts, has been the feeling in the country. In such co-ordination, the availability of finance in the initial stages is postulated. Once the cycle is completed, by which profits begin to be retained in this country, efforts in this direction would be needed less and less, but they could not be slackened, until this result is achieved.

314. *Concerted action.*—The inspiration for special industrial banks, which are suggested elsewhere, in conformity with the general opinion of witnesses as well as Provincial Committees, is undoubtedly found in Japan, but one has to search a little beyond the mere machinery of finance or beyond the great patriotism of the Japanese people, for the remarkable success, which they have achieved in the industrial field. I would like to suggest that the success of Japan was due to covering the whole field and taking all correlated measures, at the same time, creating enthusiasm and concerted effort on the part of many people and securing from all these people, the adherence to and proper functioning of the various measures taken. Thus, it is important, that all those people, who are producing raw material and exporting it, should feel that a market is being created for them nearer at home. The railway system of the country and those who direct it, must feel that in the movement of raw material to the place of manufacture and the radiation of the finished product therefrom, potential growth of traffic is involved. Even the consumer, who has to pay a high price on account of the operation of the heavy tariff system * for the time being, should feel that it is better for the money to remain in India and to circulate therefrom than for the profits on such efforts to go perpetually out of the country. The stock exchange must support and sympathise with these measures, as the number of securities quoted on their exchange would increase and the turnover would be enlarged. The investor would have a more varied choice and his position would become secure. Banks would be interested in the matter, as an industry creates more deposits and loans than foreign trade of equal amount. Government's interest in the growth of industry is great. The outlay on famine prevention and relief would be materially reduced. Apart from

* The only heavy tariff, which has resulted in building up industry, is the so-called revenue tariff on matches, which has brought into existence an alien enterprise. The conditions, under which this enterprise has emerged in India, and the assistance and co-operation, which it has secured from Indian Government officials, including those who had retired, would, in the interests of India, merit a public investigation. The Indian tariff system in other respects can hardly be called a 'system'. It is most unscientific, involving the operation of contradictory principles. It has been built up haphazard and allowed to spread, wherever the Finance Member could cast a greedy eye. The effects on foreign interests have been much more closely examined before and after the imposition of each tariff than the effects on Indian industry.

increase in the gross earnings of railways, they would have a larger taxable surplus in the country. The state would get security services during the war and greater self-sufficiency in the event of the country being cut off from foreign supply. The people would get more self-reliance. There would be more inventions and more adaptations, there would be increased employment, and the wealth of the country would be better utilised for the benefit of the people of the country.

Such a policy and programme in India might appear to be extravagant, but they are perfectly consistent with the highest dictum of caution and conservatism. When what is desirable is indicated, it does not necessarily follow that it can be, or should be, attempted in one day. But what must be avoided in India are isolated and uncorrelated efforts, local policies often contradictory to one another, and limited enquiries with meagre results. A programme has to be created and to be adhered to. The present attitude has to be negatived. A free field and minimum interference by Government has involved the concentration of large resources in foreign hands and the consequent creation of a mortgage on the wealth of this country.

A definite thread in the Indian evidence, that was tendered before us, could be traced all along, urging the need not only for improved finance, but for what was conveniently lumped as a 'change of fiscal policy'. It was also clear that the Indian community, which the witnesses represented, did not expect this result till the formulation and administration of industrial policy was in the hands of a minister responsible to the Indian legislature, not merely in the provinces, but at the centre. While no recommendation by the Central Banking Committee is possible on this subject, an assumption to this effect was made in the recommendations, which were formulated. It was felt that, in order to carry out these recommendations, these conditions would be essential. I warmly subscribe to that assumption.

315. *Are existing facilities adequate?*—The most marked divergence of views appeared in reply to the question, whether financial facilities to industrial concerns were adequate. The question, it will be noticed, was far-reaching, as no remedial measures are called for, where the present situation is satisfactory. The European witnesses, who came before us on behalf of the European Chambers of Commerce, the Exchange Banks Association, and the Imperial Bank of India, were all of opinion that industries floated on sound lines and showing a reasonable promise of success had not, to their knowledge, been unable to obtain the financial assistance necessary. The representatives of European Chambers of Commerce admitted that their knowledge did not go beyond the larger presidency towns and the experience of their members. If European industry in this country has to face no difficulty in securing financial assistance from existing banks, either the complaint from the Indian quarter is untrue or grossly exaggerated, because Indian concerns of a like kind have the same kind of security to offer. If the securities

are the same, the difference can only arise from the personal element. It may be due to the lack of touch between the Indian customers and the foreign managed and foreign controlled banks. It may be also due to the normal and social association between European customers and foreign managers. It may be also due to the fact that European bank managers may be deriving their information *re* Indian business houses from their European customers, who are rivals. This is a psychological factor, but information from a rival source is generally disparaging. A solution would have to be found for this, but no solution could be found, so long as the discussion is confined to whether preference of Europeans at the hands of European bank managers in India exists, or it does not exist. That it exists in the matter of coal mines and tea gardens owned by Indians, has been the definite subject matter of evidence. With regard to other industries, the belief about such discrimination held by responsible representatives of Indian Chambers of Commerce cannot be altogether set aside.

A solution of this could not be found on the mere truism that long-period finance cannot be given from short-period deposits. The complaint is with regard to the same kind of finance as is at present made available by banks to European industries. It could be only sustained in the comparison of like with like.

It cannot be said that Indian concerns start with a greater initial shortage of finance than European concerns. I have no desire to emphasise the factor of racial preference, but it was mentioned so frequently in evidence, that its mention in the report could not be avoided. The Imperial Bank authorities, who are primarily concerned with loans to industries in India and against whom the complaint was directed, gave before the Hilton-Young Commission particulars of their advances to Indians and Europeans and placed before our Committee a list of industries, to which the Imperial Bank had given finance.

316. The methods of operation of banks would, to some extent, explain the paucity of capital available for industrial concerns. Banks, taken as a whole, have a certain limit of funds in their hands, which they seek to invest to the best advantage. The general trade demand takes the lion's share. When they are not invested in response to demands other than those of industry, if it is a question of preference, such concerns as the bank manager considers sound and reliable, will get the accommodation. Whether European concerns predominate amongst those, who get the accommodation, and Indian concerns amongst those that are left out, is a question, for the reply to which material evidence did not come before us.

Banks in India may be said on the whole to be working very conservatively, which, from the point of view of industrial borrowers, might be expressed as the failure of the banks as a whole, to assess their credit-worthiness. It is possible that some banks have lost on loans to industry through defective valuation, but it would be reprehensible, if, instead of improving their own machinery

of valuation, banks were to curtail credit. The security, which an industrial concern has to offer, consists primarily of the block. The value of the block deteriorates, when it is used, and it sometimes deteriorates more, when it is not used. Between the original value and replacement value and knock-down value, there will be a great difference. Even if a suitable margin is kept by a bank, it has to face both the cost and the delay in realising the value of a plant, and the value so realised may be altogether disproportionate either to the book value of the plant or to any reasonable valuation put on it. Where the bank takes an extremely pessimistic outlook and either declines to lend against the block, or offers a very small loan, the position may be correct from the point of view of the bank, but is extremely hard and unpromising from the point of view of the industrialist.

317. Where money is required for extensions, the block is, and should be, the proper security, but finer distinctions do not appear to be made in India. Great stress has been put in recent times with regard to liquid stocks, and this item is popular with banks as the basis for loans to industry. Even in this case, there is a certain amount of stock, which is as much wedded to the place as the plant, and, that is the stock in process. The stock of raw material, in the form in which it becomes the subject matter of dealings in the markets, and the stock of finished goods are visible items and offer no difficuty between the bank and its customers. The Imperial Bank has taken the lead, and the other banks have followed, in fixing the margin for such stock on a basis of valuation, which also the bank itself fixes, and there is again a complaint that this margin is rather high.

Both internal and foreign trade of India is growing and in so far as trade and industry have both to go to the same banks, there is a perpetual and potential competition, in which industry seems to get the worst of it. One solution lies in increasing the banking resources of the country as a whole and in utilising them better and more effectively than at present. It lies in the direction of greater use of credit instruments, instead of cash in the districts, so that, if trade is handled with less call on banks, more money might be available for industry. At the moment, banks cannot be blamed, if they play for safety. With the general improvement in the prospects of industry, would improve the confidence not merely of the permanent investor, but also of banks, who would consider industrial concerns as safer borrowers than they appear now.

318. *Finance for industries from existing banks.*—The above discussion has proceeded on the basis, that existing banks are financing industry. That they are financing industry, has not been denied. On the contrary, it has been claimed by the Imperial Bank, that they are doing so. If proper figures could be secured, it will be found that banks in India (excluding foreign banks) have anticipated and gone beyond the recommendation, which is being made, that they could lend out to industry their own capital, *i.e.*, the equivalent of their share capital and reserve. It was, however, urged that banks could, and should, only lend for short-

period, and, as the bulk of the demand for finance on behalf of industry was not for short period, banks could not go into it with safety to themselves. I have already referred in paragraph 138 how the so-called short-period loans by banks are in reality, taking the banking system as a whole and the trade as a whole, not short-period. Banks, in general, in India act under the leadership of the Imperial Bank, whose model they copy and whose practice they introduce. In recent times the practice of banks has not taken at all a desirable turn and it would appear that the financing of industry has become more restricted than hitherto.

Much more is being heard about "locked-up" loans and "frozen" loans. Banks in India have not yet fully realised their responsibility to industry, which can never remain in a stable condition. The profit earning capacity of industry as a whole varies with those economic cycles, which bring about a steady and continuous rise of prices, or *vice versâ*. When things are moving up, it is all rosy for the industry. The condition reacts on the banks, who also tend to be more free and easy. When the tide is turned and depression sets in, industry suffers, profits become *non est*, and banks in India try to draw in their horns. The banking ideal is that banks should enable their clientele to get over a period of difficulty, consistent, of course with adherence to sound banking principles. A closer examination of values and margins, no bank can afford to neglect at any time, whether it is boom or depression, but an undue emphasis on due dates and repayments with regard to loans to industrial concerns can intensify a downward situation, against which industry may be fighting.

319. I have known of loans to industrial concerns by banks, which were renewed for many years. The fiction of payment on due date remained a fiction. The industrial concern was carrying stocks and was not carrying the money. When the condition of the industry became bad, *i.e.*, when its profit-earning capacity was reduced, the bank promptly hinted that renewals would not come. Such hints were not calculated to improve the credit of the party, but the loans were renewed all the same under stricter conditions. When an ultimatum was given by a particular bank, the loans were transferred to another bank. The security was the same, the industry was the same and the parties were the same, and it was not a bad business for the other bank. The parties, however, having had sad experience of their dealings with banks, which embarrassed them, as the time for renewal came near, through the uncertainty arranged the loan from an Indian State. Had there not been a lender, who was prepared to wait for his money, the industry would have suffered.

In my opinion the banks have done a dis-service to themselves and to industry through an exaggerated adherence to the principle of short-term investments. How the banks could prosper, where industry of the people is in a weak condition, is a question, which has not been considered in India, because everybody is taking the narrow and particularist view relating to his own interests, and

the larger national view affecting the whole community is not in the forefront.

320. *Two signatures rule.*—Closely connected with the fact that banks are at present financing industry, will be found the practice of two signatures on promissory notes, which the Imperial Bank is obliged to get by their Act, and which other banks have in many cases insisted upon as an additional security. This means that, in addition to the specific security taken, the banks also occupy the position of general creditors of both the parties signing the promissory notes. In the case of an industrial concern, the second signature is that of the managing agents. Banks in India have made great bones about advancing to industrial concerns, which have no managing agents, or of advancing to a company merely on its own signature. Such exceptions, as are known in the financial world, only go to prove the rule. This practice on the part of the banks has given strength and support to the system of managing agents. It detracts greatly from the claim that banks are financing industry. Such a claim should be sustained and could be sustained, only if banks could gauge the earning capacity and repaying power of an industry and could lend money to it either on its own credit unsecured,* or on such security as the industry has to offer. In effect, the banks are calling upon the industry of the country to get a guarantor, before it can have any money, however sound and flourishing it may be. The position here disclosed is one, in which the banks are not seeking the custom of industry, but industry is starved for finance, which it is entitled to. Where in this manner, there is a scramble, there can be no surprise for Indian borrowers getting less than European borrowers, who are better known, understood and trusted by European bank managers. Some improvement may be expected by the increase of banks, and some from the increased resources, which the establishment of the Reserve Bank will give to the existing banks by the rediscount facilities, which will be created. Improvement can also be sought by establishing conditions, which will secure greater credit to those, who constitute an important agency, next to the banks. Industrial concerns get credit for raw material and also secure finance from their selling agents. They also get it from private bankers, who make their own terms. In all these cases, as a rule, the terms are higher than those which a loan from a bank would carry. General improvement in the banking situation in the country would react on all these favourably.

It is the problem of paucity of credit and the ground for this belief lies not merely in the complaint that industry is not receiving adequate finance, but also in the high price, at which the available finance is being given.

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* Clean advances and unsecured loans are regarded in India as exceptional and as symptoms of favouritism or carelessness on the part of the management. They are however the acme of efficient and advanced banking and constitute some of the safest and best accounts in the books of first class banks in advanced countries. Refer to Questions 7913 to 7926 put by me to Mr. MacDonald of the Imperial Bank in his oral evidence.

321. *Direct Deposits.*—The finance of industry from deposits taken from the public directly has been a very important feature in Bombay, where it is on the decline, and in Ahmedabad, where it is still flourishing. The following statement would illustrate the importance of this system to the Indian textile industry of Bombay and Ahmedabad.

(In lakhs of rupees.)

	Bombay. (Figures for 64 mills.) Rs.	Percentage of total finance.	Ahmedabad. (Figures for 56 mills.) Rs.	Percentage of total finance.
1. Amount loaned by the Managing Agents	5,32	21	2,64	24
2. Amount loaned by Banks	2,26	9	42	4
3. Amount of public deposits	2,73	11	4,26	39
4. Amount of Share Capital	12,14	49	3,40	32
5. Amount of Debentures issued	2,38*	10	8	1

* Made up of:—46 from Managing Agents, 53 from Banks, 1,39 from public.

It will be noticed that the amount of public deposits is more important than the amount secured from banks. The absolute figures of these deposits run into a large enough figure for an arrangement of this kind to be called a system, and, therefore, deserving a close examination. In its origin, the system of deposits with industrial concerns was undoubtedly a reflex and a transformation of the old system of money kept for safe custody with the *Mahajan.* Its survival, even in these days, would lead one to believe, that the system must have worked fairly satisfactorily for both sides for long past. In recent years in Bombay, there have been cases, where depositors lost some of their money in industrial concerns, but the deterrent factor, according to evidence placed before us, was the counter attraction of high rates on Government cash certificates and on Government loans. The system may be said also to have weakened by the deliberate policy of banks taking a charge on the stocks and weakening the security of the depositors. In Ahmedabad, the system is working vigorously and well and no complaints have been heard either from the millowners, or from the depositors. Some of these deposits in Ahmedabad are secured by the mills at very low rates. The system deserves commendation and it should be at all events kept up, until a machinery is prepared, through which industrial concerns can readily borrow. There is no doubt that the mill industry in Bombay and in Ahmedabad would have never made the progress, which it has made, but for the existence of this system, and there is some reason to believe that all the causes, which have weakened this system in recent times, have also increased the difficulties of industrial finance.

The system, however, is, like many other good elements in Indian economic life, doomed. From the purely theoretical considerations,

the capacity of an individual, who has saved a small sum, to judge the safety and soundness of the concern, with which he deposits it, may be doubted. Not only can he not follow his money and know what is happening, but he remains in the position of an unsecured creditor, with absolute power to the directors to deal with all the assets, to which he can look up for the return of his money. The intervention of the bank between the borrower and the lender is justified, when the bank, by its superior equipment, would be in a position to know when and to whom to lend and for what period. From the point of view of the industry, the taking up of such deposits involves no greater danger than the taking of short-period loans from banks, as both may, and have been known to demand the return of the money at an inconvenient moment for the industry. There is no option for industry beset with a sudden demand for moneys borrowed like this, except to raise a loan elsewhere, and it may find itself in difficulties not merely with regard to the terms of the new loan, but with regard to getting it at all. If banks in India had made considerable progress, one could have promptly said that the method of direct deposits is a primitive method, unsuited to the requirements of modern industry and should be discouraged. But, until such moment is reached, it would seem to be a blessing. Depositors in mills are not different from depositors in banks in their mentality, and both are liable to panic, when there are any rumours going about, particularly when industry is not flourishing and there is depression. This is a danger, which modern financial organization carries with it. It is certainly a greater danger to an individual industrial enterprise. It would be to the interests of the banks to discourage this system of deposits. They could do so, by offering accommodation to industrial concerns at rates cheaper than the concerns have to pay for their deposits. Since the rates of these deposits are, however, low, such a development cannot be expected for a long time to come yet. The only bank, which can do this effectively, would be the Imperial Bank. Whether they have already done so in some cases, or whether inducement in this quarter was not sufficiently attractive and they have found ample occupation for their funds elsewhere, it is difficult to say.

322. *The Managing Agency system.*—It is impossible not to refer to the managing agency system in connection with the question of the finance of industry. The practice of managing agency varies from industry to industry and from place to place, but it is said that in many places the managing agents have placed substantial funds at the disposal of industrial enterprises in their charge. Realising that parties, who have funds, are anxious to secure sound investments, there should be no room for surprise, that loans are given to enterprises, whose affairs are not only fully known, but controlled by the investor. This result could also be brought about by the practice of banks asking for guarantees, or the managing agents' signature to the promissory notes, whenever they lend to industrial concerns. A better test of the question would be, not the amounts, which the managing agents have lent

to concerns under their control, but the amounts, which the managing agents lost by doing so. No figures were available to us in our enquiry, but information on this head will be most illuminating.

The system of managing agency in industry is a peculiarly Indian phenomenon, having no counterpart anywhere in the world. In its origin, it is probably a continuation of the large trading houses, which engaged indiscriminately in banking, industry and other activities. The frequent changes of domicile of men, who became old, from amongst the pioneers of European enterprise in India, might have strengthened it, but the system is old-fashioned and it has outlived its utility. It is disadvantageous to the shareholders, whose interests always come second to those of the managing agents. It has now held the field in industry to an alarming extent. New industrial capital could be drawn and new concerns could be promoted with ease only through the great established firms of managing agents. Outside of them, they would have an uphill task. This is not a healthy situation, as it does not augur for extensive development of industry. Managing agents have contracts with provision not only for long periods but for their perpetual renewal, and often the managing agents could not be got rid of, except when they resign. Some of the contracts involve payments to the managing agents, whether the company makes a profit or not. Some of them involve payments to them on purchases for the company, and some on sales, and some on both. In some cases, the managing agents get their commission on production, without any reference to the condition of the company. The managing agency system thus absorbs too large a share of the profits and makes industry as a whole less attractive to the investor. It, therefore, tends not to encourage, but to check the flow of capital in industry. Ancilliary activities of managing agents, who are known to speculate on the stock exchange in the shares of their own concerns, also lead to the same result. The managing agents take advantage of a rise of prices to boom their shares and unload them at top level, leaving the public to hold the baby. In this, they not only play with loaded dice, but they discourage the *bonâ fide* investor and give to industrial investments, a bad name. The managing agents' commissions (contracts) have been the subject matter of sale and transfer without any reference to the shareholders and without any idea of the consequences on the industry. When managing agents speculate and lose money, the credit of the concern under them is reduced or destroyed. The shareholders, who have purchased shares on the basis of the personal reputation, efficiency and competence of some partners in the managing agents' firm, may find themselves, without any notice, faced with the control of new parties, who may be young, or incompetent, or completely unfit to carry on the work. However, the system of the transfer of control of industry by heredity or by sale to parties not approved of by the company, is one, which must be put an end to by law, and it is recommended that when the revision of the Companies Act is undertaken by the Government of India, the introduction of reforms in this direction should receive their attention

323. The weaker and less desirable side of the managing agency system portrayed in the above paragraphs, need not be assumed to be of universal application, but it cannot be denied that it is inherent in the system. Wherever they exist, they are responsible for the weakness of industry, which no financial measures can overcome. It is the business of law to countermand everything, which will deter the flow of capital into industry. A provision, which demands the contract for management being limited to a certain number of years and being good during that period, only if a specified individual is able to offer his personal services, will not work hardship on most industrial concerns, that are managed by capable partners of managing agency firms. But, a provision of this kind will eliminate, wherever it exists, the additional risk to industry arising from the death or the financial weakness of the active manager. Under these contingencies, concerns in India, otherwise on a sound basis, have been known to have passed into incompetent hands with fatal results, without the shareholders of the company having any legal power to intervene for their own safety.

The managing agency interest often represents promoters' charges, which ought not to be a drag on the enterprise for ever. Sometimes it represents a capitalised goodwill, which a new party purchases in the belief, that it gives him a full right and title to squeeze the concern to his advantage within the law. Under a managing agency system it is inevitable, that the concern should pass on into weak hands with the passage of time. Over a large series of years, it involves Indian industry into jeopardy, to which rival industries in other countries are not subject.

324. *Long-period requirements.*—It was indicated in paragraph 138 that the requirements of industry even with regard to current stocks, are really long-period in the sense, that the concern will carry stocks, but not money. The fiction that this is a terminable and short-period loan is maintained both by the bank and by the industry, with the full knowledge, however, that the loan can be only repaid by a new loan. On this basis industry receives money from banks not only in India, but all over the world. It receives larger and freer credits and greater accommodation in bulk in some countries in the world as compared with others. Public opinion in some countries has discouraged conservatism on the part of banks in the interests of the general prosperity of the country. The expansion of industry intended particularly for export purposes, has been known to be stimulated by measures in other countries, at which conservative English bankers would hold up their hands in horror, but a demand for much greater enterprise on the part of banks in this direction is now insistent in the United Kingdom itself.

Instead of suggesting measures, which would, therefore, expand banking to suit the needs of industry, it was distressing to find the foreign " experts " laying down counsels of perfection with regard to what industry should do to adjust itself to the banking system

of this country.* In plain words, the suggestion was that an industrial concern, before it started, should derive, from its share capital itself, not only enough to enable it to set up the buildings and plant, but also enough to enable it to work in normal times. In other words, the whole of the block capital and the whole of the working capital required in normal times is to be secured before an industry should start. The fact that this is contrary to the industrial history not merely of this country, but of other countries, was pointed out to them, but they seemed to be over-anxious to exonerate banks in India from the charge, that they were not giving adequate finance. They seemed to be anxious to establish the principle for the guidance of the banks in this country, that it would be improper for them to give finance to industrial concerns either for capital shortage in the block, or for extensions, or for normal working capital. The position really was that industry in India had to adjust itself to the banking system run on this ideal line. Interpreted in this light, much of the accommodation, which industries are at present receiving from banks, would be cut off. There could be no hope of industry receiving adequate finance in future, if banks are dominated by this novel and mischievous doctrine. If banks controlled and managed by Europeans in this country were all imbued with this idea, the prospects of Indian industry getting proper finance would become extremely slender.

The foreign " experts " admitted that there were in their own countries cases, when an industrial concern was short of money for any of the three purposes already noted. In such cases the floating of a debenture loan was suggested. In Germany, the bank would advise the client as to the time and the manner, in which such a loan should be placed on the market and in conformity with German practice, where banks do a lot of stock exchange work, help in distributing such loan amongst the investors. Prior to, and in anticipation of, such transaction, the banks would advance the concern all that it required. Such advances would run sometimes for a period of two years or more. This was the system, which India was asked to adopt. It was suggested, that industrial concerns in India should get away from existing arrangements and should gravitate towards this idea of debenture finance, not merely

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* " It has to be made clear that it is not sufficient in itself that an industrial firm should put up its block from its own capital and that, having done so, the firm can appeal to banks for loans and assistance. Not only block but also normal working capital has to be furnished out of the firm's own capital, and before the firm is fit for Industrial Banking or Industrial Finance, it must have been in operation for a sufficient period to prove that it is strong enough." * * * * *

" If the whole of the working capital of an industrial concern is borrowed money, part of the loan would become locked up and the concern would never be free from indebtedness to the bank. No commercial bank, which adheres to the sound and common principles that its credits ought to have a fluctuating and not a permanent character, and that its customers ought not to use their credit during the whole of the year, would be likely to consider such an advance as being suitable for its activities. The customer who has no reasonable prospect of being able to repay his debt to the bank, would expose himself to a serious danger if the bank should, for any reason, decide to call in its loan."—(Foreign ' Experts ' Report, pages 5 and 6.)

for purposes of capital shortage in block or for extensions, but also for the full requirements of normal working capital.

325. *The Debenture.*—It was claimed as a merit of this scheme, that it would relieve industry from the Damocles sword in the form of sudden demand both from direct deposits and from short-period and terminable bank loans. To the extent to which the danger is real, this would be so, but, as noticed in previous paragraphs, the danger is theoretical and any alternative, which may be recommended, would have to be tested on the ground both of feasibility and of comparative cost.

Before taking up the question of the comparative cost, one has to examine the light, in which the debenture issue by industrial concerns is held by public opinion in India. A debenture being essentially a mortgage, would affect the credit of industrial concerns at once with banks. This was brought out in evidence before us. Unless the debenture issue was, therefore, successful and brought in amounts, which would satisfy *all* the needs of an industrial concern, a changeover would not commend itself. Companies with a small amount of debenture stock find it not only difficult to secure loans and cash credits from banks on the usual terms, on which such accommodation is given, but would also find it difficult to continue the use of credits in respect of raw material, which they often have and which play quite an important part in their finance. The issue of a debenture loan, in other words, in India would not be regarded as an improvement in the affairs of a company putting it on a safe and sound basis, but is more likely to be looked upon as a reconstruction arising out of the weakness of its business. The debenture issue, in order to be popular, would have to be made by the strongest companies, but the strongest concerns would not have the motive to initiate this change. This is a psychological factor of very great importance. The search on the part of industrial concerns in India has been, wherever possible and even with some strain, to pay off debentures rather than to retain them on account of their attractive feature of being a long-period loan.

326. *Comparative cost.*—Debenture issues of industrial concerns have carried interest in India at varying rates not merely according to the soundness and credit of the concerns issuing them, but depending on the time of issue, the volume of issue and reputation of the under-writers. The interest is known to be anything from 5 per cent. to 9 per cent. But, in addition to the interest, there are the initial legal and stamp charges on the issue to be paid by the company, and there is the under-writing commission. Sometimes the issue price itself is below par. It would be invidious to name concerns in this report, but first-class concerns with solid security offered to the debenture-holders have been known to have paid 8½ per cent. *plus* the additional charges indicated above. It would be impossible to conclude that debenture loans for any, except the best concerns, could be secured on the whole at rates, which would compare favourably either with direct deposits, or with the charges

of bank loans. The suggested system, therefore, would involve immediately a substantial increase in the charges, which existing industry has to bear.

327. *Feasibility.*—Since every industry, which has not built up large reserves, would require working capital, the proposal would involve a wholesale issue of debentures running into many crores of rupees. What the proportion of debenture capital should be to the own capital of the company, has not been indicated by the foreign "experts", who put forward the proposal.

	Joint Stock Companies on Cacutta list.	Joint Stock Companies on Bombay list.	Total.
	Crore (Rs.)	Crore (Rs.)	Crore (Rs.)
Share Capital	76·37	52·83	129·20
Debentures	8·05	17·51*	25·56

The above table brings out at once how limited is the vogue of debentures in India and how extensive, therefore, would have to be the new issues. Will the investor in India absorb debentures in such quantities? Debentures, because they involve heavy transfer fee, are generally taken by the more permanent holders amongst the investors. Because of the limited return, the prospects of serious capital appreciation do not attach to debentures. They have no speculative attraction. The amount going into debenture-holdings every year is limited and too large an offer cannot but depreciate the values, both of old and of new debentures. If it leads to the offer of an increased rate even for some of the issues, that would in itself detract largely from the merits of whole scheme.

The programme does not seem to be feasible in India, because of the lack of issue houses. In Germany, from the experience of which this scheme has emanated, banks themselves help the issues. They have a standing clientele, who receive advice from them as to investments and who accept such advice. Substantial amounts are thus taken up in advance, relieving the strain on the lay public, when the issue is actually made. Under-writing operations being under such circumstances easier, the costs pertaining to under-writing are also low. In India, the system of banks advising their clients as to investments, which such clients make, is by no means universal or as widespread as one would desire. There are reputable firms of stockbrokers, but it would be impossible to whip up the enthusiasm of these stock-brokers in debenture issues, which cannot in their very nature become the subject matter of frequent quotation or an active market operation. On the other hand, it is possible that some of the people interested in holding debentures, would fight shy of dealings with stock-brokers. Banks themselves cannot be considered as important holders of debenture stock in India. The Imperial Bank Act does not permit them to hold such

* A large chunk of these is understood to be sterling debentures and therefore of less significance in the discussion in hand.

bonds. Other banks are possibly deterred by the fact, that there is not always a ready market for the disposal of the stock. The holders of debentures amongst the public are not encouraged by the banks, when such holders desire a loan. Nor have banks in India been known to encourage debenture issues of industrial concerns, by enabling people to subscribe to them on the payment of an initial margin. Insurance companies, which in other countries hold debentures in large quantities, cannot be expected to support industrial debentures in India, for reasons dealt with in paragraph 353. There are no investment trusts in India, which would hold debentures and tap the savings of the people through their own bonds.

The market for debentures, as things are in India, is thus limited. It would be of national importance to take measures, by which this market can be expanded, and a debenture as an instrument of investment may be made popular.

The issue of debentures to meet the financial requirements of industry, to the extent to which they are unsatisfied now, is thus beset with more than ordinary difficulties. It cannot be accepted as the sole measure for securing to industry, all that it would require in the way of finance. As an immediate panacea, it holds out no hope. This was the unanimous feeling in the Committee, which, therefore, came to the conclusion that, for giving loans to industry extending over periods longer than the ordinary bank loans, special institutions would be required. It was further recognised that the investor would have to be tempted by a more attractive debenture bond than that, which an isolated industrial concern could provide him with.

328. *The need of special institutions.*—The Committee felt that it would not be in the interests of India to withhold from industry the financial support, which it does not get now and which it deserves, until an investment market grew up and showed itself willing to take up debenture bonds in adequate quantities. The remedy indicated by the foreign " experts " involved altogether a longer route with some doubtful results at the destination, if it was ever reached.

The European witnesses were generally opposed to the idea of an industrial bank. They were sceptic about its need. They were doubtful about its success and they were frankly hostile to the notion of state aid extended to industry through a special institution of this kind or in any other way. This opinion received an emphatic echo in the views of the foreign " experts ", who strongly deprecated state aid to industrial enterprises on lines, which the Committee felt inclined to adopt. I shall quote their words:

" We consider these suggestions thoroughly unsound and we do not doubt that, should the Provincial Governments follow the lines of these suggestions, taxpayers would be involved in serious losses. The experience obtained under the State Aid to Industries Acts, now in operation in some of the Provinces, may serve as a deterrent example. This experience is the common one in cases where a

system of extensive State aid in economic life has been introduced."*

The causes of the ill-success of state aid to industry have been examined in the Provincial reports. Whatever else they lead to, they do not discredit the objects underlying or the principle of state aid. That interference in economic life by the state leads to losses to the taxpayer, or is generally deterrent to the economic wellbeing of the country, is an exploded idea, as the modern state in every country in the world has not only an extensive system of regulation, but a well defined policy, which secures direct and indirect benefits to those industries, which are for the time being considered to be in need of such benefits. India might have been grateful to the foreign " experts ", had they told us not only the many things, which must not be done, but a few of the things, which were definitely done in their own respective countries, to secure the wellbeing and growth of industry, not merely through financial assistance, but in a hundred other ways.†

329. There seems to be a confusion of ideas with regard to the functions of an industrial bank in India, a confusion, which the foreign " experts " appear also to have shared. An industrial bank is primarily wanted in order to make available to industry larger volume of finance than it can get at present, and on better terms both as to the period of the loan and as to the rate of interest. So far as this side of the activity of an industrial bank is concerned, it would do for industry what a commercial bank does for trade. There is nothing inherently wrong about it and in fact it would be a very desirable thing, if an industrial bank with such a programme could come into existence by private enterprise and if it would function altogether without any assistance from the state. It is because it was recognised that the prospects of such a banking institution coming in existence unhelped were small, that Indian opinion has urged specific assistance to be given, which would lead to its establishment. The assistance, which the witnesses generally favoured, was in respect of shares or debentures, or both. In the matter of debentures, again, it was suggested by some that such debentures should be guaranteed as to principal as well as interest, and by others, that they should be guaranteed as to interest alone, by some, that all debentures should be guaranteed, and by others, that debentures issued either up to a certain amount, or during a certain period after the bank was started, should be so guaranteed. The guarantee by Government in any form, or the subscription to shares, would necessarily involve the framing of rules, under which the industrial bank should work and the provision for some control on its operations to ensure the safety of the bank and of the holders of debentures guaranteed by Government.

Assistance by Government to the industrial bank, which will enable it to come into existence and to have the necessary funds for

* Foreign " Experts' " Report.

† Beet sugar subsidy given by the state in U. K. during 1930-31 was £5,400,000, the budget figure for the same purpose for current year is £2,150,000.

its operations, does not necessarily involve assistance by the latter to industrial concerns, except on purely business considerations. It is because industry is willing to pay the price for finance and yet is unable to get it, that something substantial has to be done.

330. *Other directions of Government aid.*—To what extent and in what manner should Government assistance be given to industry, apart from bringing the industrial bank into existence on the above plan? It was recognised by witnesses and generally urged, that there were other directions in which assistance to industry was necessary. The state aid to industry involves assistance not merely in the form of finance, but in various other ways. The demand that similar acts should be passed in other provinces is one, which appears reasonable, and it is recommended that steps should be taken in these directions. The requirements of industry would be different in different provinces. They would be also different according to the size of the industry. There would be also another factor, *viz.*, whether the industries are new and of a pioneer nature, or whether they are on lines already indicated by experience in any part of India.

In order to secure progressive industry, there would have to be in each province a census of production giving some idea of what is being done now. Simultaneously a programme for industrial advancement in each province would have to be prepared. There would have to be an indication, whether the needs of the province are supplied from articles manufactured elsewhere in India, or from imported articles. There would have to be also a statement of the principal products of the province, the extent to which such products become the subject matter of commerce, the form in which such surplus products are exported, and whether there are any industries, which could be set up in respect of these products, which would enhance their value. Progress in industry can be in many directions, but the most promising in India is the first step with regard to the produce, as it comes from the field. This may be illustrated in the case of rice. It is better for India to export rice than to export paddy, and the establishment of rice mills is indicated. In the case of oil seeds, it would be better for India to export oil-cake and oil rather than to export the oil seeds. It would be better for India to export tanned hides and skins than to export them raw. This would also apply to mineral products and forest products.

331. There are industries, which are interlocking. If there are a sufficient number of paper mills, a paper pulp mill will be justified. It has been found elsewhere in the world more economical for one set of people to manufacture paper pulp, and for another to manufacture paper therefrom. Efforts have to be linked together. Subsidiary industries, industries for the utilisation of waste products, repair industries and workshop, industries for the production of packing material, and industries, which produce essential articles like sulphuric acid, would be wanted. There would be, again, industries, the entire output of which would be taken not by the

market, but by the other industries. Much would have to be done, therefore, before industries putting the final product in the hands of the consumer can be called into being. Progress may be either on the vertical basis or horizontal. It may be considered desirable to use the experience, India now has, to secure expansion along a known path and eliminate foreign supplies altogether as in textiles, and/or the creation of new experience in directions hitherto unattempted may be sought in a matter of national safety.

Enterprise and capital might be available, but information may be lacking. The primary aim of Government should be to bring relevant information together and to make it available to the business community. After this is done, it may be found in some cases that the risks attached to an enterprise are great, that it is in the nature of an experiment, and private capital could not be drawn into the business unless some initial difficulties were overcome, or unless the inevitable loss in the first year or two was made good. There would be other enterprises, in which the difficulties may not relate to successful technical production, but to marketing. There may be still others, which want an adjustment of railway rates. In some cases, where a public department needs the article of which the manufacture is proposed, a mere continuity of orders at an assured price during the first few years would be all that the private enterprise seeks. In several cases, measures may be needed, which would divert Indian purchasing power to articles made in India to the exclusion of imported articles. There would be still another class, which could not come into existence, except with a very large capital both initial and working, and whose difficulties may not be merely financial, but may also require attention in every one of the directions mentioned above.

332. It would be thus noticed, that before India can seek considerable progress of her industries, Government assistance will be absolutely essential. The question then arises, whether such assistance should be given by central or provincial governments, whether it should be given departmentally, or through industrial banks, which may come into existence, whether such industrial banks should be an all-India organization with branches, or independent provincial banks with an all-India co-ordinating board.

It is inevitable that the collection of information regarding industry and the administration of general regulations affecting industry should be matters of administration pure and simple. But decisions, which require business knowledge, cannot be taken by lay ministers, however painstaking and earnest, they may be.

The lines of a census of production, which must be uniform for all-India, would have to be laid down centrally. If it is not considered advisable to incur special expenditure for an elaborate census, available information from official and non-official sources and such further information as could be secured without much delay, would have to be brought together on common lines. The industrial programme would have to be fixed so as to avoid overlapping, duplication and waste. The lines of advance will have to

be determined with reference to progress in other countries, with reference to amounts imported, market available in India, prospects of different industries, and difficulties of different industries. All this would have to be done centrally in a definite link with knowledge of local conditions. A small board consisting of one economist, one businessman, and one technologist with the Director of Industries acting as secretary and member, wherever such an official exists, would have to be set up in the provinces. A similar all-India body would have to sit and would have to work in close collaboration with provincial bodies. It is recommended that the formulation of an industrial policy by the state and its declaration should take place centrally, and that simultaneously arrangements may be made to create the bodies indicated. Much work in India would have to be secured on the voluntary basis and it is hoped that the manner, in which Government will proceed about these boards, will be such as to inspire the necessary enthusiasm of non-officials, who will work on these bodies in an honorary capacity. The emergence of a programme in each province, consistent with the needs of India as a whole, would then indicate in what manner assistance could be usefully rendered by the central Government, and in what directions it could be rendered by the provincial Governments. It may be emphasised that this is purely an administrative matter as the central Government would have no direct interest and not only would benefit accrue to the provinces, but in practical details the operation of the assistance would be attended to by provincial Governments.

It is obvious that assistance other than financial would have to be given by Government through a special machinery created for this purpose. With regard to financial assistance, it was felt by the Committee that a business judgment, which the industrial banks could exercise, would be of great use. Co-operation with such banks ought not to be difficult, since it is expected that for some time to come Government will have a direct link with these banks, whom they will have assisted in various ways.

333. *Industrial Bank.*—Non-Indian opinion urged delay in the establishment of an industrial bank on the ground of depression of trade, but it may be pointed out, that, even if the recommendations of the Central Banking Committee in this direction are accepted immediately, some time would necessarily elapse before such bank comes to the working stage. The psychological effect, however, of the immediate acceptance of the proposal by Government would be very favourable, as it would indicate not only a definite change of Government policy with regard to industries in India, but it would create a more hopeful outlook for the future in the matter of finance.

I recommend that an industrial bank should be established with branches for the present at Bombay, Calcutta, Madras, Lahore and Cawnpore. The reasons, which impressed me to make this recom-

mendation, instead of supporting the proposal for independent provincial industrial banks, appealed also to the foreign "experts". The majority Committee have also taken account of them in paragraph 409 of their report, but the all-India bank, according to them, would be an additional organization. The direct and initial effort, according to them, should be made in the provinces. I shall, therefore, summarise the reasons for my recommendation, in which I desire that such funds and such energy as India can spare, should not be used for independent provinical organizations.

I am inclined to think that excessive emphasis is being laid on the autonomy of the provinces generally in matters relating to industry,—an emphasis, which in economic matters, is calculated to create separate interests and centrifugal tendencies. Whether it is politically a wise ideal for this country to have strong provinces and a weak central Government, or whether there is no alternative to that arrangement, are questions that cannot be dealt with here. But it may be noted that, whatever the historical origin of the provinces, they have been in the economic sense one for a long time. Arising from administrative convenience and the creation of separate finance for them, provincial feelings and watchfulness have grown so much, that the words "provincial patriotism" occur in the report of one of the Provincial Committees. As industrially separate units, provinces do not exist, and the encouragement of the idea of separate industrial interests of the provinces cannot lead to any good.* The practical consideration, which those who urged independent provincial organizations of an industrial bank, brought forward, was that it will be the provincial Governments, that will hold the shares and guarantee debentures, and participate in the supervision of the rules and the control of provincial banks. I should like to point out that the tax-payer in the province is not a different party from the tax-payer of the central Government, taking the community as a whole. Such contribution to the shares as may be recommended on behalf of the tax-payer in an all-India institution, could be divided amongst the provinces on an equitable basis, in the determination of which basis, they would be parties. So far as the raising of bonds is concerned, the guarantee of the central Government would not only be more effective in securing a larger volume of money at a low rate, but would be the only assurance to those provinces, whose resources and credit may not be very high, or who have no money market of their own, to secure the necessary funds. This would be the best way to launch off industrial banks in this country without a scramble and without different provinces competing amongst themselves. If and when resort to a foreign market becomes desirable and possible for debenture bonds

*"The proposals of the Statutory Commission would give a wide extension of responsibility and independence to the provincial Governments. Nevertheless, the provinces cannot be regarded as separate economic units, and they must remain to a large extent dependent on the central Government's financial administration and the maintenance of its credit." (Government of India's despatch for Constitutional Reform, 1930, p. 152.)

of the industrial bank to be placed out of the country, it is the guarantee of the central Government, which would prove more acceptable.

334. The bias of the foreign "experts" was entirely for a central institution, which would issue industrial bonds, regulate their amounts and rates with reference to other issues, both of public loans and of private flotations. The requisite skill and judgment may not be available in every province. Independent provincial organizations would give an immediate advantage to Bombay and Calcutta on financial grounds, which, if the picture of provincial jealousies, which some people love to draw, were accepted, would be very strongly resented all over India.

Apart from these financial considerations, the fact that enterprises located in one province are controlled from another province, would create practical difficulties in defining the independent zone of provincial banks. Enterprises are at present registered under a single law anywhere in India, and would operate freely anywhere. The whole body of law regulating commerce and industry, is, and may be, expected to remain a central subject. There will be assistance required by industry, which may be of a purely local nature, but more often there will be large questions affecting protection by customs, tariff, adjustment of railway rates, rules relating to stores purchases of the large central spending departments like the military, the railways, and post office, in which adjustments could be secured immediately and without much red tape by an All-India bank. Provincial Governments could in this, as in other matters, act as far as may be necessary as agents of the central Government. The links in administration through the industrial boards suggested in paragraph 332 could be utilised for getting the necessary co-ordination in details between provincial Governments and the provincial branch of the All-India bank.

335. It will be thus noticed that the larger economic considerations affecting the nation as a whole, and the more urgent financial considerations affecting the successful working of the industrial bank, point to the need of an All-India organization. With regard to the details of administrative arrangement, which makes industry a transferred subject at present in the provinces, adjustments will have to be made from the orientation of a definite All-India industrial policy. The question of encouraging smaller cottage industry and the relation of the working of the state aid to industry, and the provincial branch of the All-India bank, would have to be gone into, but they do not in themselves offer insuperable difficulties, and certainly do not over-ride the important considerations already set out. It is essential that the administrative machine should be elastic and should be in conformity with the economic requirements. It would be unfortunate, if administrative conveniences were allowed to create artificial divisions in the economic life and organization of the country, or to strengthen those evil tendencies of separate interests within the larger fold.

There is still another group of important arguments in favour of a central all-India bank. There would be a distinct convenience and economy with regard to the employment of such technical staff for initial reports, for valuations of industrial plant, and for advice to concerns assisted, as may be engaged either full time or on some reasonable scale of fees for a definite piece of work, if this were done by a central institution. In the training and selection of the ordinary staff of the bank, there will be also greater convenience as well as saving. In fixing uniform rules, there will be a guarantee of sound work. The experience gained in one part of the country could be usefully brought to bear in another part only through a central institution. A central institution could more economically keep the necessary touch with foreign countries for securing information, as to what is being done there, as to different kinds of plant and equipment, the most economical and modern methods employed, the more salutary regulations for the safety and well being of both labour and capital engaged in industry, and for possible markets for the surplus production of India. It is only an all-India bank, working in close co-operation with the industrial boards, which could render help, on such terms as may come to be determined, to the client of the bank in the various provinces with regard to their operations abroad, particularly the selection, purchase and despatch of machinery, and the recruitment of foreign technical staff.

336. Not only will economy be effected in so many directions, but duplication and waste of effort will also be avoided. The full results of the census of production and of the industrial programme would be before the central board, who would work in close co-operation with the central board of the all-India industrial bank. The interests of India as a whole would be better safeguarded, if some of the directions, in which new industries could be established, were settled centrally. As an illustration, it may be pointed out that there may be more than one place, which may offer the necessary raw material, and some advantages for the establishment of the aluminium industry. It would be fatal, if questions of provincial pride, or the desire to expand industry in a province were allowed to interfere in decisions, as to which of the several places would give the greatest public advantage, and which would, therefore, be encouraged by financial facilities. The exclusion of some efforts like this from some provinces will not mean that the total potentialities of the province will suffer. Progress may be possible in many directions and desirable in many others, but would be always restricted by available resources, and the most economical disposal of these should be a national concern. There will be always the interests of capitalists and businessmen, which will pull one way or the other, but it would not be right to allow capitalists and businessmen to strengthen their applications and requests for financial assistance on the ground of provincial sentiment.

337. *Capital and resources of the All-India Industrial Bank.*—The factors affecting the consideration of the capital and resources

of the bank would be: what amounts could be reasonably expected from Government and from the public, who would take up the debentures? How much of the total, which Government can borrow in this country and abroad during the next few years, could be set apart for this purpose, having regard to the other calls on Government resources? The needs of India's existing industry are large and the potential growth of such industry is considerable. It will be a matter of policy for the state to decide at what rate and by what stages, this growth is to be secured. The decision cannot be reached, therefore, on the basis of the demand for industrial finance, since such a demand is already very large and would increase in future. It has to be reached from the side of the availability of funds. The capital ought to be such, as will give the bank a definite status not merely in India but abroad. It should be such, as would create the psychological factors of confidence and hopefulness amongst the public and in the business community. If the bank is to cater for the requirements of several provinces with the projected five branches, each of these branches should be equipped with funds, which would enable it to get a sufficient turnover, so as to cover the costs and also to satisfy reasonable demands for accommodation, which may be made on it by existing industries. Taking all these into account, it is recommended that the share capital of such a bank should not be less than Rs. 5 crores. It is further recommended that Government should hold at no time less than 51 per cent. of these shares, until the matter is carefully examined after a few years' work. The balance may be offered to the public, but it is somewhat doubtful if the public will come forward to subscribe to these shares in large numbers, not merely because of the novelty of the enterprise, but because the institution has inevitably to start as a Government institution, and public confidence in the business management of Government officials is not very high. All the same, it is not advisable to improve the attractiveness of the shares to the public by the kind of guarantee of dividend, which was suggested by some witnesses. Such a guarantee would be objectionable in principle. Shareholders are partners and if those, who represent them, are expected to bring with them commercial watchfulness, which goes with a search for profits, such incentive should not be weakened by a guarantee. The public investment is more likely to be attracted towards the bonds, which will be issued by this bank. It was suggested that there should be a very severe restriction on the amount of bonds to be issued. The foreign "experts" and European witnesses were for a definite restriction of the amount of bonds, and the restriction suggested was in the proportion of 1:2. No justification exists in my mind for such restriction, which might not only fall short of the reasonable requirements, but might prove fatal, by not providing the necessary turnover, on which expenses could be spread out. The issue of bonds to the share capital of different kinds of institutions depends upon the margin of safety, which is provided in the investments of the funds so raised, as well as upon the share capital.

Any hard and fast proportion to the paid-up share capital is not recommended. The board of the industrial bank will, it is hoped, act in very close co-operation with the board of the Reserve Bank and possibly have some common directors. The head office of the industrial bank should be located, where the head office of the Reserve Bank is, and the financial judgment of these parties may be trusted not to exceed safe limits. The greater the care, which will be exercised in giving out loans, the greater will be the justification for attracting from the public as much amount, as they will be willing to give by investments in the bonds of an all-India industrial bank. In order to secure this result, it is recommended that these bonds should be guaranteed both as to principal and as to interest, and that they should be included in the list of trustee securities.

In order to make the industrial bonds popular, Government bankers should provide for a scheme for their purchase by instalment. It is also recommended that Government should support the market for these bonds by authorising the Reserve Bank to hold a certain amount in the currency reserves as well as in funds of its banking department. The main factor of strength for these bonds would, however, be a rigid and careful provision for redemption, in periods not exceeding thirty years. Sinking fund and other moneys, which are to be used for redemption, should be lodged with the Reserve Bank and should be re-invested in authorised stock with due regard to the date of maturity.

338. The foreign "experts" and the European witnesses emphasised not merely the general principle that it would be dangerous to make long-period loans from short-period deposits, but urged that there should be a prohibition on the industrial bank taking deposits, except for periods exceeding two years, and in the case of deposit finance, the loans should not exceed the period of currency of the deposits. They urged that an institution of this kind should be kept severely apart and should not at any point compete with the existing banks in the country. The anxiety to protect the existing banks in the country and to protect their deposits from being attracted to the new all-India bank, is intelligible, but the water-tight arrangement, which is suggested, cannot be recommended. Industrial concerns, that would borrow from the industrial bank, would use the money realised for all their purposes. The securities, which the industrial bank might retain, including a general charge on the assets of the concern, might render it very difficult for them to go to other banks or agencies for working or for any other finance. Often a loan may be settled, but the moneys may not be wanted by them for many months. During these periods and under such circumstances, it would not be advisable to prevent the industrial bank from keeping their current accounts and also from accepting deposit accounts, at least of their clients, even if such deposits were for one month, six months or twelve months. On the other hand, the assistance, which an industry may require, may be in the form of acceptance

to secure the movement of raw materials to it. It may be in the form of a discount against manufactured articles in stock or in movement. These demands of commercial banking with reference to the bank's own clients would be more or less known and in the bulk would not be very excessive. It is inevitable that in centres, where the office of the industrial bank is located, in these directions at all events, both with regard to deposits and with regard to commercial banking, restrictions would prove inconvenient as well as impossible. There is some weight, however, in the plea that a state institution should not attract deposits going into commercial banks, by offering higher rates, or a slightly lower rate, which would cover the additional security of money in Government institutions. It is, therefore, recommended that there should be no prohibition with regard to taking of deposits by the all-India industrial bank at its various branches, but that the board of the bank should not fix rates, which would appear, or, be in effective competition with the rates offered by Indian joint stock banks. Any representation from Indian joint stock banks in this direction should receive the greatest consideration.

339. *Constitution.*—The constitution of the all-India industrial bank should be one, which will command confidence. Association of businessmen, both at the centre and in connection with each provincial branch is, recommended and in the selection of these, it is hoped, that Government would try, in consultation with provincial Governments, to secure the co-operation of some of the best minds in the country. Experience of industry, financial knowledge, and wide business outlook should be the characteristics of the directors of such an institution. It must be realised that this is an experiment* on a large scale and in a direction, which will affect national well-being. The directors elected by the shareholders will come in any case to the extent, to which such shares are held by the public, but the object of retaining 51 per cent. of the shares in Government hands is to prevent the bank from falling into the hands of any section, which might frustrate its principal object, and to correct the vagaries and make up for the deficiencies of a board elected by lay shareholders.

It will be in the selection of the managing-governor at the centre and managers of provincial branches, that great care will have to be exercised not only to secure men of proved integrity and sound judgment, but men, who will, consistent with their great responsibility, share the national outlook. It is true that once the industrial bank is established, it will have to act on strictly business principles. Assistance not justified on such principles, would have to be applied for and secured, if possible, independently of the

* The idea that industrial banking on these lines has been tried in India and has failed is wrong. Whatever may have been in the minds of the promoters of the Tata Industrial Bank, in practice, this institution did not differ materially from any ordinary commercial bank. Nor did it come to grief from financing of industry on lines suggested for the All-India Industrial Bank.

bank, through the industrial boards, from Government. But it will be fatal to the success of the scheme, if complaints of the same kind as have been heard against the Imperial Bank and the foreign banks working in this country, were made with regard to the industrial bank. No room should, therefore, be given for the possibility of such complaints.

340. *The working of the Bank.*—The principal functions, which the bank would perform, would be to give loans to industrial concerns for periods ranging from one to ten years, according to their needs. The bank would have to make careful enquiries into the purposes of such loans and in the prospects of the industry. They would have to assess carefully the security offered and to keep a margin of safety for the bank's funds. They would also help industrial concerns to make extensions and to replace old by new machinery. They would also advance money as working capital on a proper valuation and margin on such security as the concern can offer.

The bank would also help their clients in other ways on the agency basis. They would also render help to their clients by bringing them in touch with the industrial boards for help in directions other than those coming within the purview of the bank. The bank would help the clients not merely with the loan, but would help them further to float their debentures. The bank would have the power to underwrite such debentures and to place them on the market as facilities arise, or to hold them in the interval as part of their investments.

With regard to new concerns, the bank would not only give advice to promoters, but should have the statutory power to take up preferential capital not exceeding one-third of that, which is secured from the public. Such preferential shares should carry with them preferential rights both as to interest and as to capital. As a rule, it is not advisable for the industrial bank to make direct investments in shares, either of new or of old companies, though it may be expected that blocks of shares and of debentures might constitute in some cases collaterals in respect of loans. Great vigilance will be required on the part of the bank, not only in effecting recoveries, but in watching the general progress of a concern. Consistent with the safety of the borrower, they will have to secure all information about what is going on. The industrial bank should have the power, when it feels the necessity, of deputing one of its officials to attend board meetings or of nominating a director on the board of borrowing concerns from a panel approved by its own central board.

It would be essential for the Act constituting the all-India industrial bank to give wide powers to the bank itself. Such powers as in the opinion of the board could be usefully exercised by the manager or the local committees of a provincial branch would then be delegated, and in all cases the principal rules of business at provincial branches would be settled by the board. It was

definitely urged and it was recommended that the industrial bank should not deal with industrial concerns, in which the management and control is foreign, or the majority of directors are foreign, or the majority of shares are held by non-Indians. If the object of industrial policy in India is to secure the growth of industry under Indian control, such a rule would have to be observed. If the board of the industrial bank are selected with due regard to the national outlook, the making of such a rule should indeed be unnecessary, as only in an extreme case and where it is unavoidable and where Indian enterprise cannot for any reason come on the scene, would they go out of their way to proffer assistance to non-Indian concerns.

341. One word of caution may be given in conclusion. Briefly, the impetus given to industrial activity in this country by the industrial bank and its branches would be great, because it would be cumulative. By the law of dispersion, support given to the economic organization at one spot would spread according to circumstances more or less all over. Foreign interests are not likely to look upon such growth or upon the activity of such an institution with marked favour. Suggestions for delaying the establishment of this institution have already been made. The foreign " experts " coined a new name, which has been adopted by the majority Committee, *viz.* " Industrial Corporation." I would favour the retention of the orthodox words " Industrial Bank ", because it would more readily convey to the public in this country, what is really intended to be done. So long as sound banking principles are adhered to in the grant of loans, the industrial bank might lead to progress, unless its initial years are dogged with a period of falling prices and heavy depression. So long as there is an active state policy with regard to industry in directions other than finance, so long as dumping and every other business device, by which the imported article would seek to fight the locally manufactured one, are quickly detected and warded off, industry as a whole is bound to respond to a measure calculated to bring more finance to it and on better terms.

CHAPTER XIX.

THRIFT AND SAVINGS.

342. Savings represent the surplus of immediate production over consumption. It represents deferred expenditure. It is the accumulated command over utilities in the future, which an individual has, and which, while he does not himself use it, can be used by other individuals at a charge. Modern economic organization depends on capital, and capital arises out of savings. The importance of thrift and savings institutions has been recognized all over the world. A special world conference met in 1927 at Rome to compare means and methods employed in different parts of the world.

India is considered to be poor, which is a way of saying many things in one word, but, precisely from the point of view of savings, it will mean that there are not many in the community, who have the surplus after they have spent from their income, what is required to maintain themselves. The savings per head being small, such total volume as can emerge in any particular year, has to do the duty of repairing wastages in the capital stock of the country, and thereafter of adding something to it, if there is anything to spare. From the national point of view, it is the total savings that matter. Whether there have been in recent times changes in the economic life of the country, by which larger money passes through the hands of the working class, is a question, that would have to be ascertained elsewhere. Whether, in the event of more money going to many people, there is merely what is called an improvement of the standard of life, or whether it leads also to savings, has to be considered. In western countries, the savings of the mass of the people run into formidable figures. They have the will to save and the desire to save and are equipped with the necessary machinery, by which they could save. A community, that is unable to make up by its collective savings the wastages in its capital assets grows poorer. In their case, capital shortage has sometimes to be made up by importing capital from abroad with all its attendant evils, if unregulated.

343. There is a direct relationship between the rate of interest earned and the inclination to save. Where a minimum standard of life is wanted, a low rate stimulates the saving, but the savings when invested yield that standard; as a rule the effect is the other way. A higher rate of interest induces larger saving. There is nothing more destructive of the feeling of thrift than sudden and heavy losses, which intensify the feeling of uncertainty in the community and render the present much more vivid and real. Capital savings are the result of a keen realisation of the future accompanied by a feeling that what is saved now would be reasonably safe and would be available to the party in suitable form, when he needs it in future.

The rate of saving in India is not very high and the capital wastage is to be made up very considerably. India would, therefore, take much longer to achieve the same results as western countries. Her national production, though very considerable in the total, is low per head. Her consumption, in spite of the low standard of life, eats up much of what is produced.

Savings emanate at the hands of a very few classes in India. Of course, the rich ones who cannot spend all their income and who save involuntarily, constitute a microscopic section.

The savings of the middle class in India are considerable in the mass, but they are very low compared with savings in any other country, because the calls on the middle class are great. Social institutions in India make great depredations on individual savings in the support, which has to be given to relations and others in case of distress, temporary or permanent, ceremonies and charities. There are no rules of retirement. There is no scheme of insurance. The stimulus and ambition to own land and houses is real, but it has resulted in uneconomic rise in the value of land. The form, in which savings can be kept, has also affected the volume of savings.

344. What is then the position of the agriculturist, who has, after sale of his produce and effecting various payments, kept aside something for use during the following months? He is at present carrying this money on his own person. The view that he puts it for safety with the village Mahajan was discounted by the fact, that he is more often than not in debt and is not likely to trust the village Mahajan with moneys, which are necessary for him and which the Mahajan would credit promptly to his account. Several million agriculturists in this country, therefore, carry some money with them for some months in the year. Those, who are not in debt, and this class is comparatively smaller, have larger amount. But even those, who are in debt, would retain some money, which they do not need at once, but which they anticipate they would have to use after a few weeks.

The agriculturists, as indeed other small people, promptly invest their cash at present in ornaments. Where they have cash, which they are likely to require after some time, they are often tempted to lend it out to relatives, neighbours and others on promises of prompt repayment, which are not always kept. Lastly, they carry the cash on their person, or conceal it underground somewhere, with the attendant risk of loss and theft, a risk, which, in proportion to their resources, the people, who are well off and who use banks, can avoid. This is, briefly stated, the problem.

In India the question of hoards has been often mentioned by all classes of critics of India's economic condition. Many misleading ideas appear to prevail on the question of hoards. They have been summarised in a note, that was prepared for the Committee by Mr. Masani. Hoards in the sense of the Arabian Nights may be left out of account, but it must be recognised.

that always the first claim on a man's savings in India is for ornaments on the person of his wife. It may be fortunate for India that women love the precious metals, which are less ephemeral than silk dresses and millinery and shoes, which western women seek. But the cumulative loss on ornaments on the person of women is really heavy. The loss is two-fold. One is the loss of interest, which would have been earned, if the amounts had been invested. The other is the wastage. The wastage from the wear and tear, from reshaping and re-making after some time, the cost of the goldsmith directly in labour charges and indirectly in leakages and from total loss, as when an ornament drops out in a well or river or road has all been reckoned up and it has been stated that nothing remains of an ornament at the end of fifty years on an average. A two per cent. loss approximately therefore, per year *plus* the loss of interest is the heavy price, which India pays for this archaic system of carrying her savings. No immediate and radical remedy is, however, possible for a situation, the cure of which is in the hands of womenkind. Something may, however, be done if rival forms of investment of savings, more attractive and more secure, were created.

345. A part of the savings of the community at any particular moment becomes banking deposits. Sometimes they are on their way to permanent investments and are awaiting such investments. They are held by banks in the meanwhile but the flow being continuous, a certain amount is always there. The other kind of money, which constitutes an important element of banking deposit, is that, which is held pending the moment when it is required for some use. From the point of view of the party, who has this money, banks keep it safe and offer him the additional convenience of prompt payment to his order. From the point of view of the community, the banks mobilise idle money in the expectation that all of it will not be demanded at any time and the withdrawals will be counter-balanced to some extent by the flow of new money coming in. The banks are in practice able to utilise for their own profit and to the economic benefit of the borrower large sums, which would have otherwise remained fallow.

The encouragement of savings must, therefore, become an important objective of state policy. Public opinion has, however, in the past been scattered and disorganized on this subject. The improvement in the standard of life of the people through expenditure on many things has been hailed with delight. Newer and better things are brought within reach and the importation by this country of commodities from abroad going to swell the import trade of the country has been regarded as a symptom of prosperity and improvement. Parsimoniousness in an individual may be condemned, when his expenditure falls much below that of those, amongst whom he lives. In India the man, who saves, has not hitherto been accorded a proper appreciation as rendering a service to the community. It is true that the community benefits incidentally and is willing to pay for the use of his savings, but it benefits all the same. In Europe, campaigns of thrift have been

initiated from the top in those countries, where a crisis called for patriotic efforts. Savings certificates were launched out in the United Kingdom and the campaign was started in a spirit, the like of which has never been known in India.*

346. *The Postal Savings Bank.*—Amongst the institutions for thrift, the place of honour undoubtedly goes to the postal savings banks. The establishment of this system in 1882 will rank as one of the most important benevolent acts of the Government of India. It will be seen from the following figures that the response has not been meagre, nor has it been from those classes alone, for whom this was intended.

Number of Post Office Savings Banks, Depositors and Amount of Deposits.

Year.	No. of Banks at the end of the year.	Number of Depositors.	Deposits each year inclusive of interest.	Withdrawals each year.	Balances of deposits (inclusive of interest).	Interest.
			Rs.	Rs.	Rs.	Rs.
1911-12 . .	9,502	1,500,834	8,78,69,630	6,80,72,516	18,89,85,438	50,87,745
1918-19 . .	10,587	1,677,407	13,45,15,009	11,21,16,730	18,82,44,749	46,87,601
1919-20 . .	10,670	1,760,442	17,74,51,171	15,22,11,384	21,34,84,628	56,46,213
1920-21 . .	10,713	1,877,957	18,84,85,138	17,33,48,050	22,86,21,716	62,19,740
1921-22 . .	10,758	1,958,324	17,72,12,120	18,32,21,237	22,26,24,825	61,51,765
1922-23 . .	10,730	2,043,502	17,69,15,629	16,75,41,713	23,19,98,761	62,99,037
1923-24 . .	10,535	2,089,314	18,38,64,845	16,79,80,436	24,78,83,170	67,08,070
1924-25 . .	10,727	2,164,473	18,15,10,695	17,64,98,958	25,63,94,907	71,20,637
1925-26 . .	11,162	2,317,390	19,78,68,202	18,19,48,345	27,23,14,764	73,99,014
1926-27 . .	11,994	2,518,142	21,17,01,752	18,89,26,973	29,50,89,541	79,20,535
1927-28 . .	12,326	2,606,071	24,00,05,395	20,84,26,748	32,66,68,188	86,71,833

From the above table the following instructive facts emerge. The deposit in each post office is Rs. 26,827 and the amount per depositor is Rs. 126. From the point of view of expenses, the position must improve as the total grows, allowing better spread of direct and overhead costs. The increase is indicated as follows:—

	1918-19.	1927-28.	Increase during the decade.
No. of Post Offices	19,445	21,608	2,163
No. of Post Office Savings Bank Offices	10,587	12,326	1,739

* A permanent institution in the form of the National Savings Association has emanated in the United Kingdom, which emerged during the war and has survived during the peace. It has been suggested by some Provincial Committees, that something ought to be done in India on these lines.

From the above table it will be seen, that there is room for immediate expansion both in the number of post offices as well as in the number of offices, where savings bank business could be done. It ought not to be difficult to devise, particularly in connection with the agriculturists' special deposits, a simpler form and introducing it at every post office, since the volume of deposit, which would have to be dealt with, would not be considerable at an individual office.

The number, however, of savings accounts in India compared to the population falls very much below the number anywhere else in the world. It may be that the illiteracy of the large bulk of the people is responsible for this. It may be that the chronic indebtedness of a very large section prevents them from saving anything in their own right. Whatever the explanation may be, the dearth of saving and the dearth of capital, therefore, for banking and for other purposes is a marked feature of India's economic life. The scope for improvement is probably not very great and it is all the more reason, therefore, that it should be fully utilised.

347. Several improvements can be made in the working of the post office savings banks. They are indicated below. Most of these have been asked for or referred to in the reports of Provincial Banking Committees.

(1) Increasing the number of post offices.

(2) Increasing the number of post offices, where savings bank business could be done and cash certificates will be purchased.

(3) Facility for more frequent withdrawal. Some Committees have suggested unrestricted facility, which would reduce postal savings account to the position of current accounts.

(4) Facility for paying in cheques.

(5) Facility for withdrawing by cheques.

(6) Facility for transferring into one account in the savings bank, money from another account.

(7) The use of pass books and signature in vernacular.

(8) The keeping of accounts in two names.

(9) Simplicity of forms.

(10) Where full time offices could not be established, then offices for two days in the week to be administered by grouping with other places to be opened.

(11) Assistance of the village schoolmaster to be requisitioned.

Many of the above reforms are capable of being effected. Objections have been raised to some of them on two grounds. One is, that it is not desirable to encourage anything approximating

the operation of commercial banks in the activities of the post office savings bank. This argument does not amount to much, if it is urged on the ground of the savings bank acting in competition with other agencies. The Indian joint stock banks are located in few places, and it is hoped that they will expand in future, but for a very long time to come it is not possible for them to cover up the field, and there will be still many places, where it will never pay them to open branches. The savings bank caters for small accounts, often too small to be attractive to the joint stock banks. The savings banks are one way institutions. They borrow, but do not lend. They collect money from people, who would otherwise spend it, or lose it. With regard to this institution's competition with the private banker and money-lender, it has been brought out in evidence that these latter do not always receive deposits. If they keep accounts of parties with them, it is often because these parties borrow from them and because the Mahajan expects trading and other advantages. Nor need the question of interference with the co-operative movement arise. This movement uses advantageously the postal savings bank and has actually sought additional facilities like primary societies depositing up to a larger amount than is permitted by the rules.

348. The other side of this restrictive view is that postal savings banks are for safe custody only and it should not be the aim of public policy to enable them to approximate to the position of banks. Safe custody in respect of money cannot, however, be interpreted as narrowly as has been attempted. Money has to be kept safe, till it is wanted and both in theory and practice, all moneys are wanted by the owner sometime or the other. A short-term investment sometimes grows into a long-term investment, and a long-term one has sometimes to be realised in an emergency. The real hoards in India are idle cash, *i.e.*, cash, which is not immediately required by the owner. Such hoards are more in the hands of small parties than large ones. It is in attacking and mobilising these hoards, that real advance is to be sought. It is not merely in increasing banking deposits but in other directions. If the goal in India is to be the same as in other countries, *viz.*, to reduce the actual cash as medium of exchange to the minimum and to secure the liquidation of most transactions by other means, then familiarising the public with credit instruments like the cheque would be the first step. If the savings bank cannot act as a bank to the small man, has he anywhere else to turn? Information with regard to the taking of deposits by co-operative societies was not complete, and we were informed that the practice varies in different parts. Deposits are taken in such quantity and for such periods as are convenient to the movement. In other words, deposits are taken from the point of view of the benefit to the movement rather than the convenience and the need of the depositor. When the depositor is a non-member, facilities are even more scarce in the co-operative movement, particularly in the matter of current accounts.

The fact then, that other solution is not in sight, would lead one to examine more carefully the question of greater facilities at the post offices. That the absence of machinery of saving is responsible for smaller total capital saved is a conclusion, which finds support in many places in the Provincial Committees' reports. One of them actually suggests, that, if facilities existed, larger savings could accrue in periods of plenty. While the zeal for thrift is justified, any reflection on the Indian cultivator as being extravagant and as being unable to understand the importance of savings, or the use of the money, would on the whole be found to be incorrect. He shares with other classes the weakness of human nature, in which there is greater tendency to spend when money is in hand than when the money is carefully put away in a bank or invested. The balance of advantage to the country and to the small men lies in the direction of the relaxation of the rules of the savings bank and, consistent with safety, in the expansion of facility through them as far as possible.

349. From the point of view of the post office, it has been pointed out that larger facilities would involve the keeping of more cash. To the extent to which this cash would have to be kept actually at a cost to Government, the benefit to Government from the use of postal funds would be reduced. The Committee never were able to examine whether what is paid by way of interest on postal accounts is too much or too little. The suggested obligation to keep larger cash at the post office needs a much closer scrutiny. These offices receive payments with certain regularity under other heads and they have disbursements monthly or at other periods. There is, therefore, the constant inward flow of funds. This would have to be examined with reference to the withdrawals that take place now under the restrictive conditions and the possible increase of such withdrawals, which may be expected, if the facilities were expanded. The difficulty with regard to additional cash would not be real in places, where there is an office of the Imperial Bank or a district treasury. Whether there are, therefore, financial considerations, or considerations affecting the cost of administration, which render it absolutely impossible to secure progress in the direction indicated, is more than any one can say. No facts with regard to this were brought to the Committee, which would justify, therefore, turning down the suggestions made. There would necessarily be many details to be considered. I, therefore, recommend that a departmental enquiry should be promptly set up to look into this matter. But it is urged that departmental and official objections alone should not enter in the decision of the question which involves a much needed improvement in the thrift machinery of the country.

The real consideration against the extension of the savings bank system would be that it collects money in the districts and withdraws it from the districts for use in larger purposes elsewhere, the benefit from which to the locality is indirect and remote. It is in order to take away this reproach, which would be justified in a larger measure on the operations of the savings

bank, that I have made suggestions in para. 301 for other uses of funds, uses more directly connected with the district.

350. Even if the problem of safe custody for money for the agriculturist is solved, the question still remains as to, *whether the agriculturist should be offered a higher rate* of interest to induce savings. The elasticity for supply of money in the case of the agriculturist by the inducement of higher rate, may not be very great, but *primâ facie* an agriculturist, who does not want safe custody for his money, is not likely to be impressed by the rates now offered by the savings bank, in view of the fact, that the rates prevailing in the village and paid by him on various occasions, by his neighbours, and paid by the village Mahajan himself for accommodation by the indigenous banker, are very much higher. If the attention of the agriculturist is to be drawn to the phenomenon of interest, it cannot be drawn at anything near 3 per cent. There is a very strong case for the offer of this higher rate, at all events in the first few years, to genuine agriculturists and in places, where every other method is likely to prove futile. The point would then arise as to who is to pay for the additional cost, how the moneys raised in this manner are to be utilised with safety and yet to cover this high rate of interest *plus* the cost of administration, and lastly how this is to be done without imposing a heavy burden on the state by having to raise the rate for savings bank deposits all round. I recommend the examination of a scheme of savings counter applicable to *bonâ fide* cultivators of land, which will enable them to deposit up to Rs. 25 in village post offices, and which will enable them to earn on every rupee deposited by them and kept for a complete month a specified interest. The deposit would have to be made on certain days and in the presence of other parties, and the withdrawal would also have to be made in the same manner on account of the illiteracy. This scheme is intended to be a supplement to any facilities, which the co-operative movement gives, but it is because the co-operative movement does not give this facility to those, who are not members, and does not give current account facility even to members, that this scheme would have to be devised.

351. *Use of the words " Savings Bank ".*—The question arose as to, whether the use of the words " savings bank " should not be confined to the postal savings bank only. Not only the Imperial Bank* and Indian joint stock banks take savings bank deposits, but foreign banks also take them. There is no special security attaching to these deposits, the terms of which are governed by rules made by each institution. These deposits are often paid for at a lower rate than the borrowing rate of the bank for the year. Whatever the term " savings bank " may be in the origin, there

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* Since the inauguration of the Imperial Bank in January 1921 its savings bank deposits have increased from 4,12 lakhs to a figure of 10,79 lakhs on the 31st March 1925. "—(Sir Basil Blackett's address before the Delhi University, 1925.) "

is no doubt that it has, through its operation in connection with the postal savings bank, acquired a special meaning and prestige in the minds of the Indian public. It is fundamentally wrong to allow the use of this expression, to start with, by foreign banks. This should be interdicted at once. With regard to Indian joint stock banks, including the Imperial Bank, who take such deposits, it is also necessary to discontinue the use of this term, but in order to prevent any hardship on them from a sudden breach with a practice, which, in the case of some of them, extends over some years, it is recommended that a period of five years should be given to them, after which they would not be allowed to use these words. With regard to Indian institutions, who are not taking savings bank deposits, and who have not hitherto taken them, the prohibition should be absolute.

352. *Insurance.*—Insurance companies in countries other than India play a very important part in attracting the savings of the people and in making them available either in old age, or at death, when they are most necessary. The vogue of insurance in India is new and not yet as wide as can be expected. There seems to be an enormous scope for expansion, and one of the Provincial Committees has indicated that the expansion can take place even in rural areas.

A proposal, which was supported by several Provincial Committees, was that the facilities for insurance, which Government make available through the post office, to Government employees, should be thrown open to the public. This proposal was rejected on the score of possible competition with commercial concerns. We had, however, not the material to compare whether the rates offered by Government were more attractive than the rates offered by private companies. So long as the Government rates are much under the rates charged by private companies, I cannot consider that a case has been made out for rejecting this proposal absolutely. There may be insurers, who may have confidence in a Government policy, who may have knowledge as to the good results of provisions made by Government servants for their dependents, but who may not be willing to risk their money with insurance companies. So long as there are strict limits, by which such insurance is confined to small parties only, and so long as the rates are less attractive than those offered by private enterprise, there would be advantage for some years to come, in allowing the public to participate in the Government scheme. The matter merits a close examination. It may be possible to throw open this advantage at selected localities and the question of wider application decided from the experience gathered therefrom.

353. Indian insurance companies are, under the existing act, called upon to make deposits with Government, a provision, from which British insurance companies are exempted. The demand for regulating the activities of foreign insurance companies is an old demand and the revision of the Indian Insurance Act, we were told, was in hand. If that is so, the additional provision, which is

necessary, is that the money received by foreign companies in India by way of premium should not be removed outside India, and that a certain portion of it, which may be fixed by the legislature, should be retained in India and should be invested in specified securities. The premium from life assurance companies during the year 1929 was as follows:—

	Rs.
In Indian Companies	3,35,00,000
In non-Indian Companies	2.90,00,000

The Indian money market does not get the benefit of the sum, which falls into the hands of foreign companies. Apart from life, large sums are handled by foreign companies in insurance in other directions, such as fire, marine, accident, motor car, burglary, workmen's compensation, etc. In United States, foreign insurance companies establishing themselves are obliged to hold a certain amount of the premium income in the securities of the United States Government. If foreign insurance companies must operate in India and take away the profits, it is at least essential that the use of Indian funds should go to swell the resources of the Indian money market. Measures in this direction are called for, and it is hoped that when the Indian Insurance Act is before the legislature, this will be attended to.

Insurance companies have to invest funds, which fall into their hands. In the United Kingdom, large sums were found by insurance companies to enable agriculturists to buy their own land on the system of an equated instalment. Insurance companies give strength in other countries not only to the market for gilt-edged securities, but also to industrial debentures and land mortgage debentures. In view of the fact that, if measures recommended by the Central Banking Committee are adopted, these two kinds of securities will come on the market, a reform, which would secure the use of Indian funds for the support of these securities, becomes very urgent.

354. *Provident Societies: Building Societies: Benefit Societies.*—There is a large variety of institutions, that collect small sums as they accrue to parties, hold them in safe investments, and give the benefit to the contributors in some form. In India also institutions of this kind have emerged in all provinces, but their vogue is much greater in Madras. In the absence of a definite law regulating the formation of provident societies, difficulties have not only arisen but would increase as time goes on. It is, therefore, recommended that a law on the model of Industrial and Provident Societies Act in the United Kingdom should be passed not merely in Madras for regularising the position of the Nidhis and Chit Funds, but on an All-India basis, laying down sound lines, on which such institutions could be started. These are institutions, that are not insurance companies proper. Nor are they banks, and they cannot, therefore, be brought within the law of either. Lessons have to be derived in this direction from countries, in which the

wage-earning population is much bigger and in which the habit of periodical contribution has developed much more. In the United Kingdom, the law gives certain privileges to Provident Societies and imposes certain obligations on them. From this point of view it is necessary to indicate that the matter has not been examined in detail by the Central Committee.

355. *Hire Purchase: Instalment Purchase.*—The ownership of houses by parties, who have expectation of regular periodical savings, but no immediate capital, has been facilitated by co-operative housing societies, which are working in many places. Whether they are working successfully, or have had financial and other difficulties, we were not able to ascertain. The obligation of a fixed contribution towards the redemption of a debt created for a useful purpose is, however, a very important incentive to save. A Provincial Committee emphasised the importance of the introduction of the hire purchase system for the middle classes, and pointed out that there was great scope. To the extent to which this would apply to necessary articles, it would be a gain, if interest is calculated in the composite instalments at a reasonable rate and if there is not too high a provision for bad debts. It is already employed successfully in the motor trade. The instalment purchase system is a convenience to the buyer. In some cases it enforces a self-denial with regard to expenditure in other directions by putting the claim of the instalment payment prior. But, from the point of view of the community, a machinery, which diverts resources in consumable articles, instead of in the productive field, cannot have the same commendation as other agencies, since thrift and savings imply not an approach to consumption, but the postponement thereof. From the point of view of the community much greater interest would attach to the application of this system to instruments of production such as agricultural implements or a loom or a pump.

356. *The cheque system.*—It may appear strange that measures for the encouragement of the cheque habit should come under thrift institutions, but, as already stated, the root of the trouble in India is the unfamiliarity of the public with credit instruments. That such unfamiliarity should continue and payments for commodities and services should continue to be in cash, is in itself the greatest deterrent to the use of banks. A salutary example has to be set by Government themselves. The withdrawal by cheque from P. O. savings banks already recommended is one measure.

It is, further, recommended that the salaries of all employees above Rs. 100 shall be paid by Government by means of a cheque. It is hoped that private employers would follow suit, particularly because Government have given a great impetus to the use of cheques by the abolition of stamp duty. Such practice would encourage the opening of small current accounts and the retention by banks of sums pending their use by the owners. The recommendation to Government to make payments by cheque will have to be

modified in those places, where banks do not exist, but it could be used with advantage at many places. On the other hand, it is also desirable that Government should accept cheques in payment of land revenue and all other dues. The administrative difficulties in passing the necessary receipts will not be greater than those experienced by private employers, wherever the cheques are paid and receipts are given. Such difficulties should not over-ride the larger benefit, which is to be derived from the vogue of the cheque.

The use of the cheque in itself does not add to the volume of savings except to the extent that larger savings are induced by easier and more extensive machinery, but it creates deposits for banks. Its use will have an educative value, as people will then recognise that a credit instrument can discharge debts in respect of services and commodities by means other than coins and notes.

357. *Gold Certificates.*—The issue of gold cash certificates has been already referred to in paragraph 302. There is not the slightest doubt, that in payments of dowries and presents, a gold cash certificate can be very popular, if leaders of social opinion realise the advantage to the country through its vogue. If such certificates could provide an adequate substitute for ornaments even to some extent, it would be a great gain. The question, whether it would be feasible for such certificates to carry interest at a particular rate is a difficult one, but when the Reserve Bank is established, it may be found possible to deal with it. The idea, that gold certificates could be raised on actual ornaments, the deposit of which could come from the public, was examined, but it had to be rejected, because, in the case of ornaments, it is purely a safe custody operation and if the ornaments had to be returned in the same form, in which they had been given, the gold in them could not be reckoned amongst the assets of the Reserve Bank. The periodical use of the ornaments to the owner would also have to be easy, and without such use, the adoption of the system on a large scale could not be foreshadowed. Gold, which has become a matter of personal adornment, must be left aside for the time being, but, gold, which remains in the country, as a store of value might be tapped by a carefully thought out scheme, which will be attractive to the public and which will be easily intelligible by them and workable.

358. *Intermediate Instruments.*—In surveying the field, one misses in India that orderly sequence of securities, which the investment markets in other countries offer. The orthodox rule is that the yield on investment varies with the risk. This has been cut across in recent years by fluctuations in the price of Government securities on a scale, that was unknown before the war. The investor was frightened, and the short-period bond and the terminable loans had to be created for his benefit. In other words, Government had to adjust, to suit the convenience of the investor. Such adjustment is desirable in public interest, if the rate on Government borrowing is to be as low as possible. In India, between Government securities with their low yield and highly speculative shares, the investor has

no choice. If concerns are prosperous, their shares are immediately capitalised on a basis, which yields the new buyer something in the neighbourhood of 5 to 6 per cent. But the certainty of the same rate of dividend is here assumed, which is not always realised. Capital appreciation to the original shareholders is undoubtedly the result. It was suggested that the Indian investor was after capital appreciation. This would be an altogether misleading idea. There are people with resources, who have also the speculative instinct, but, taking the investor class as a whole, provision cannot be made, unless it is recognised that there are all classes with all kinds of resources, and also that there are people, who would be willing to put a part of their resources in speculative stocks and a large part in securities, where the possibility of capital loss is eliminated. I am not convinced after a very close examination of the subject, that this is a true picture for the west and not for India. What emerges from an analysis is that, there is a dearth of intermediate securities, and that the whole range does not exist in India.

There is undoubtedly the attraction of ornaments, of the purchase of land, and of investments in real property not only from conservative people, but from those, who have burnt their fingers. There is a class of people in this country, in whose mind dealings with, or, on the stock exchange appear in the light of gambling. In so far as the stock exchange is the most important instrument of the investment market, there will be no justification for such feeling. It is because those, who consider the yield of the Government stock too low and who do not want to carry on themselves the risks attaching to industry by the holding of shares, have not sufficiently attractive investments. The position of the debenture has already been examined. Wherever such investments exist, they are either not known or understood. No organized efforts have been made to make them popular.

359. The creation of the land mortgage bonds and of the industrial bonds ought to fill up this gap. There would be enormous publicity attaching to these forms, as borrowers, under the programmes created, could, if the matter is effectively arranged, become the most active agents for spreading information about them. The industrial bank would, it has been already suggested, create debentures of concerns, to whom loans are given. Such debentures will necessarily carry a much higher rate of interest. If the flotation of such debentures is made carefully and is successful in the first few cases, it would give a greater impetus to industrial debentures than anything done in the past. The extent, to which such debentures, both those, which have Government guarantee, and those which are floated by the industrial bank for and on behalf of their clients, would be accepted by banking institutions in the country as collateral for loans and advances, would also add to their popularity. There is not the slightest doubt that the creation of these intermediate instruments will materially assist savings, will eliminate the notion that the Indian investor as a class runs after speculative shares, which have a prospect of capital appreciation,

and will render possible the further development of the Indian investment market by institutions of the type noted below.

360. *Investment Trusts.*—These are institutions, which interpose between the primary investor and the industries concerned. The investor is either too conservative, or too rash, or, he is both by turn. An investment, which, at a particular time, is good, may cease to be sound and *vice versâ* with changes in the outlook of industry and trade. Permanent watchfulness over the situation is required, as well as a machinery for securing information with regard to ventures. Experience in the selection of the investment is also a valuable quality, which the average investor cannot hope to possess in the same measure. Apart from all these, the investment trust permits of spreading out the risks in various classes of investment and various industries and trades, so that weakness in one direction, whether it is temporary, or it is the result of one of those periodic cycles noticeable in every trade, would not hit either the income or the capital assets of the concern too hard. Economically the investment trust involves some element of banking and partakes of some aspects of insurance.

The investment trust is a feature of the investment market in Europe and more so in the United States. Since Indian banking has hitherto been modelled on English banking and not on the Continental system, the gap is all the more noticeable in India. The absence of investment trusts may be traced to many causes, amongst which may be mentioned the infancy of joint stock enterprise in the country and the relatively small amount of the country's wealth invested in joint stock forms of enterprise. The large firms of managing agents would also be averse to the establishment of such trusts, whose constant vigilance might not be always helpful or welcome. The appeal of shares in industrial ventures to the investor had been great until crashes came in 1913-14, and later in 1921-22. The decline of prices since the boom time is still continuing. It is even now not certain, if people, who might be content to seek an investment giving them a safe 6 per cent. with no capital appreciation, could safely enter this market.

361. Opposition to the suggestion, that investment trusts should be established in India and could be established, came from the European Chambers of Commerce and from Mr. MacDonald of the Imperial Bank, on the ground, that the investment trust would have to operate in the world market. Mr. MacDonald ultimately abandoned this view.* The foreign " experts " were doubtful with

* *Question No. 7902.*—(Mr. Manu Subedar) With regard to investment trusts, I was much interested to learn from you that investment trusts would be safer if they operated in a wider field?—(Mr. MacDonald) I do not think you can read that into my words. I said they operated very often in the worldwide market.

Question No. 7903.—(Mr. Manu Subedar) By ' world-wide ' you meant more than one country?—(Mr. MacDonald) Yes.

Question No. 7904.—(Mr. Manu Subedar) No investment trusts actually operate world-wide in the sense of taking all countries, but they operate in more than one financial centre?—(Mr. MacDonald) Yes.

(Footnote continued next page).

regard to the success of an investment trust in India on the ground, that the prevalent rate of interest was not low enough.* I was, therefore, glad that Sir Osborne Smith definitely indicated, that such rates as prevailed in India did not preclude the possibility of the successful working of investment trusts. Greater reliance in this matter could be put on the view expressed by Mr. F. E. Dinshaw, than whom perhaps there is no one in this country, who could speak with greater authority on this subject. He said:—

"I see no reason why investment companies should not be as successful in India as in other parts of the world. Judging by the course of events on the Bombay Stock Exchange, I should say they would be very successful. Shares and stocks are often quoted at much higher or lower prices than the intrinsic value of the scrip, and the prospects of the trade or industry justify. There are constant bull and bear raids, and these affect not only speculative securities but others, which do not fall in that category. The operations of sound investment companies will have a steadying and beneficial effect. To inexperienced or small investors they will prove a boon. There are a few private investment companies in India, but I am not aware of any large public company. The

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Question No. 7905.—(Mr. Manu Subedar) I have before me the advertisement of the First Mortgage Co-operative Investment Trust, Limited, 7, Pall Mall East, London. This is one of the investment trusts registered under the Industrial and Provident Societies Act of the United Kingdom and I dare say there are many other trusts of that kind registered in the United Kingdom under that special Act. They are exempted from income-tax and assisted in various ways. Would these trusts operate very far afield?—(Mr. MacDonald) These investment trusts vary from a first class investment trust to a so-called trust which is merely an operator on the Stock Exchange, but I do not know what this particular trust is.

Question No. 7906.—(Mr. Manu Subedar) So there are several varieties of investment trusts which do not operate in more than one market and they need not be world-wide?—(Mr. MacDonald) That is so.

Question No. 7907.—(Mr. Manu Subedar) In India there are many industries and there is large variation at different centres, and if an investment trust were set up, the conditions would be sufficiently diverse to enable them to beat out the risks?—(Mr. MacDonald) I think so.

Question No. 7908.—(Mr. Manu Subedar) So that there is nothing inherently impossible in the success of an investment trust if it operated in India alone, provided it went to Punjab, Burma, Calcutta, Madras, and so on?—(Mr. MacDonald) No. (Oral evidence of Mr. K. M. MacDonald, Managing Governor of the Imperial Bank of India.)

* "The investment trust in its classical scrutiny relies on the possibility of cheap finance in the capital-market, the trust borrowing at a cheaper rate from the public in the form of its own debentures and preference shares than the yield of the investment securities acquired and held by the trust. It is evident that the rate of interest in India is not and for some time it is not likely to be low enough to warrant the formation of investment trusts. This statement may suffice to answer the suggestions submitted in this respect to the Banking Committee. There are now many investment trusts in existence, which are of a more speculative nature. They have, with not very pleasant results, tried to combine the interest of speculative shareholders in a joint venture, the investment trust buying such shares, which are believed to have intrinsic chances in various fields."—(Report of the Foreign "Experts".)

management of such companies must be in the hands of experienced and cautious men who must also be men of great probity and command the confidence of the public. In collaboration with investment companies outside British India the idea of floating a public investment company in India has been more than once considered and the only objection that has weighed with the would-be promoters has been that under the Indian law an investment company will be paying two super taxes . . . . The expenses of the company must not exceed the very small percentage on the capital and reserves, within which investment companies in other parts of the world have to work. There is no reason why before now an investment company on sound lines should not have been floated and become a success. Since, however, this is so, if the State were to take the initiative in the matter or help those, who are prepared to take the initiative, a great step in advance will have been taken. The present is the most favourable time for forming an investment trust. . . ."

362. An investment trust is merely a link between the primary investor and industrial and other borrowers. Apart from its share capital, it collects funds on the basis of notes or bonds and invests those funds, sometimes carefully spread out. The total operation has to be such as to enable the trust to safeguard its original share capital and to build up reserves. After the reserves have been built up, such an institution can, and does, take more risks. It has to find in this manner a safe margin between the borrowing rate and the yield on investments not only to cover expenses but to give some return on the shares and to build up the reserves. That such safe margin exists in India, cannot be gainsaid. It would not be at all illegitimate for an investment trust, even when it is run on the most careful basis, to expect some gains in the matter of underwriting or capital appreciation. The utility of investment trusts in India would, however, be very great in the direction of bringing capital from abroad by offering its own intermediate guarantee, which is lacking now. An immeasurable benefit to India is bound to grow from the establishment and proper working of investment trusts and the assistance, which they will give to the investor in the creation of intermediate securities, which do not exist now, in providing a channel for investment in industrial and other fields, where the primary investor would be too scared or too ignorant. The investment trust would also assist in carry-over for industrial and other concerns, particularly on issue of additional capital in the form of preference shares or debentures where banks cannot, and do not, venture now. In one way or another, the operations of the investment trust will enrich the Indian money market and will fill up the gap, which is all too noticeable in its present organization. On the other hand an investment trust, if properly organized, might be in a position to attract considerable capital from abroad. Confining itself in the first instance, to debentures and preference shares of all concerns, an investment trust would help the general situation. Its help in solving the banking problem in India would be in the matter of the creation of intermediate securities, increasing

in this manner the capital flowing into industry. The investment trust would link up the entrepreneur on the one hand, and the primary investor on the other hand.

In view of the importance of investment companies, it is essential that a model should be produced in Calcutta and in Bombay. It would be very desirable, if this can be had without Government assistance. One of the difficulties of private enterprise, which was pointed out, was the liability, under the existing law, for two supertax payments. An investment trust has to work on such a small margin, that this would be an intolerable burden. It is, therefore, recommended, that Government should communicate with the leading Chambers of Commerce in the country and indicate their willingness to exempt investment trusts from the operation of the supertax. It is desirable, that Government should confer through the Chambers of Commerce with likely parties, who would take the initiative in the establishment of investment trusts, understand their difficulties and give the pioneer efforts a reasonable measure of assistance.

363. *Disposal of Indian Resources.*—It came in the evidence before us, that the volume of Government borrowings in recent years and the rate, at which Government borrowed the money, had considerable effect on the life of the community. Everywhere in the world, Government finance is playing a more important part than it ever did before the war, but in India there is a school of thought, which claims that the effect of Government borrowings was prejudicial to the money market and the trade. Deposits, which were going directly to industry, or in banks, or with the indigenous bankers, or in general investments both in trade and industry, were diverted to Government on account of the superior security and safety. From the investor's point of view, it may have been an excellent thing, and yet from the point of view of the community, it was not. According to representatives of commercial opinion, the money thus withdrawn did not enrich directly trade and industry of this country. It may have enabled public works and other Government requirements to be carried on, but it depleted the funds available to private enterprise. Whether the direct benefit to the public from the expenditure of Government funds was equally great and compensated them for larger burdens being laid on trade and industry, it is difficult to say. But it may be clearly stated, that the process of Government borrowing and spending was entirely independent of any considerations as to the effect on private enterprise. It was directed from the top. Non-official opinion, reflected in our evidence, made a grievance of it and thought, that this was a misdirection of the available resources.

It stands to reason that interest rates payable by private enterprise would go up, if the Government took a larger part of the available money in any particular year. Several Provincial Committees also appear to have noticed this fact.

364. The question, which arises, therefore, is to find out what Government proposes to do with the savings of the people and how

much of these savings, they should use for their capital purposes, and how much should be left for private enterprise. The correlation of Government's capital works with the needs of the economic life of the country has never been definite in India. No consistent policy appears to have been laid down, and it is futile to search in official documents for a definite statement. Before the war, the objects of Government concern were railways on the one hand, and irrigation on the other. Public opinion pressed for more expenditure on irrigation, but British commercial opinion was insistent about the need of larger expenditure on railways. The war upset all standards and the post-war boom destroyed all moderation. There was a riot of capital expenditure in India during the last ten years. The Provincial Governments started capital programmes on an ambitious scale. Railways in many cases could not spend what was given to them. All this was done during years, some of which were not years of revenue surpluses. I am not, however, concerned with the past. I feel, that it is necessary for the future that there should be some correlation between the needs of Government and the needs of private enterprise.

It has been already suggested elsewhere in the report, that Government borrowings in the future should be in consultation with the Reserve Bank, the idea being that they should disturb the market as little as possible. Even the foreign "experts" took an independent view of the subject and clearly expressed themselves, that heavy Government borrowings were likely to have deleterious effects on private enterprise as well as on the growth of banking. If Government offer a rate, not very far distant from the rates, which can be earned by depositors, it stands to reason that some of the bank deposits would be converted into Government securities. It would further make it unprofitable for banks to hold Government securities, as they would have to increase their deposit rates in order to maintain their deposit level and lastly, the banks would lose in the capital depreciation of Government securities.

365. I propose to deal with this problem in two parts. One is with regard to the savings banks and the cash certificates and the utilization of the funds therefrom through the Reserve Bank for being made available to the market and private enterprise and to enable the Reserve Bank to discharge some of the functions, which will be placed on it.*

The question is to determine in what directions the credit of the state should be used to raise funds and which objects would have a more predominent claim on these funds. New objects have been revealed and new instruments will be created under the recommendations of the Central Banking Committee. Amongst these are the debentures of the industrial bank and the land mortgage debentures. The question of giving guarantee as to principal and interest on these bonds depends, as already indicated, on the risk, which is run. Where suitable provision is made for redemption and the valuations and margins are satisfactory, the risk is reduced

* *Vide* paragraph 301.

to a minimum.* It is simply a question of Government lending their credit in this direction and of the allocation of total funds, which Government can raise on their credit, between various competiting demands. It must be remembered in connection with this, that Government can raise funds not only in India but abroad. When the Reserve Bank of India is working properly with several branches in other countries, it would provide the proper channel, through which funds can be raised on Government credit in other countries for all uses, for which they are needed.

The land mortgage and industrial bonds are directions, which are necessary to strengthen the economic life of the country, to reduce burdens on the enterprising classes both in agriculture and industry, and to increase their motive for larger production. The difficulty is of the period of transition, because, once the larger wealth production takes place, the wastage would be easily made up and the requirements of the state in other directions would be met. It would be, therefore, necessary to have the question carefully examined as to the directions, in which, moneys raised by state credit should be used. It is essential, that there should be no breach with the past suddenly and yet one can easily ask, whether the limits have not been reached of economical investment in railways. A detailed examination of this is, however, not possible at this place and I, therefore, recommend that at the earliest opportunity the legislature should appoint a very small committee to go into this question. I feel justified in making this recommendation, because, if the requirements of railways and other public works, which have absorbed the fruits of Government flotation in the past, still dominate the situation, the objects, which the Central Banking Committee have considered important, will be starved and the beneficent results, which have been envisaged, will not be realized.

366. It is to a very large extent to be a case of substitution. If these objects are not substituted for those, and more money is to be raised in addition, it would intensify the just complaints with regard to the volume of Government borrowing and the diversion of available funds from private enterprise. It would inevitably involve a higher rate being offered for Government borrowing and the consequent depreciation of Government stock. It would affect the banks, both directly, and indirectly and it would affect private enterprise by raising the rates of loanable money. My justification for raising radical issues relating to Government borrowing, which one would not have looked for immediately out of the terms of reference, is

* A wholesale fall in the value of land sometimes comes about, if the value of the produce goes down and expenses of cultivation remain the same, destroying the surplus. This may be the result of a general fall of prices throughout the world. The authorities of a state can remedy this situation to some extent, if they took a serious view of it. As a rule, since historical times, the tendency of prices of capital assets in the world has been to rise. If capital assets are seriously depleted or destroyed, and interest rates soar very high, the value of land may go down, but the growth of population and modern facilities for savings and many other factors tend to make any serious apprehension in this direction unjustifiable.

that, if the whole problem were not carefully examined, either the great improvements sought in the financing of agriculture and industry would be sacrificed, or the remedy might actually prove worse than the evil.

CHAPTER XX.

BANKING REGULATION.

367. The object of all regulation is to enable the relative rights of parties to be clearly determined and to make provisions, which would prevent any individuals, in the search of their own interests, to interfere with the rights of other individuals, or the common rights of the community. The most important consideration, therefore, in the matter of regulation is that this object should be achieved, and every other plea has to take a subordinate place including the suggestion that a minimum of regulation is required. Interference by law with the economic activities of various sections is only justified, when such interference is sought out in order to achieve a definite public object. There is a wide divergence in the experience of other nations in this direction, as some countries have elaborate provisions in law, and others have managed to carry on with less regulation. Foreign models, therefore, do not help India except in the common principle that, wherever evils are noticed, public opinion and legislative bodies have not hesitated in adding to their law, provisions to counteract them.

The consideration of banking regulation divides itself into three parts:—

(*i*) Matters pertaining to foreign banks operating in this country,

(*ii*) Matters pertaining to the joint stock banks, the indigenous banker, and the money-lender, and

(*iii*) Changes in law affecting banks and their clients and all consequential changes arising out of the recommendations of the Committee.

I.—Regulation affecting foreign banks.

368. *Need for Regulation.*—In a complex society, where rights and obligations arise in many ways between many parties, it is the function of law to assist the economic machine to work smoothly. Law secures the net balance of justice and fairness between persons, with a bias always in favour of the weak against the strong. Human society is hardly possible in the absence of all regulation, but it has been an intellectual pose to postulate minimum interference by the state. In spite of this, in every country, and even in the United Kingdom, the stronghold of this belief in minimum regulation, the state has taken over various services and has provided minute regulations with regard to many departments of life and activity. The liberty of the individual is thus curtailed by the state in the interests of the liberty of all. The characteristic slogan of those, who did not want interference, was, "You cannot make a people sober by an act of Parliament," and yet, under widely different conditions in Russia and the United States,

the manufacture and sale of drink have been rendered illegal. The superior pose of minimum interference is, in its application to India, a cloak concealing powerful forces of vested interests.

369. The foreign banks, which have grown in magnitude in this country, joined through the European Chambers of Commerce in the demand for the Banking Enquiry, largely with a view to secure regulation against what they call "mushroom banks". While regulation is necessary against ill-digested programmes in the hands of incompetent or dishonest persons, in its application to small institutions, it is no less necessary against powerful foreign banks, who, if they were left free in the field would strangle out of existence their Indian rivals by what they call fair competition, but, what would in reality be, from the point of view of the vanquished, unequal and unfair struggle. If regulation seeks the paramount interest of society as a whole, the restraint against some should be in the interests of the many. I, therefore, recommend that:

(1) No bank, which is not registered in India, and whose capital is not expressed in rupees, should be allowed to establish branches outside the municipal limits of ports.

(2) No banking institution registered in India should be allowed to be controlled by foreign persons or foreign company.

(3) There shall be a separate register of shares at the registered office of a banking company, showing Indian holders and non-Indian holders separately. That it shall be obligatory on the directors of the company to refuse all transfers from the Indian register to the European register, but not *vice versâ*.

(4) That it shall not be lawful for any Indian-born person or naturalised Indian, or for a company registered in India, to place his, or their, money on deposit in a bank, that is not registered under the Indian Banking Act.

(5) That every bank, which is not registered in this country, and which seeks a license to work in this country may, on application, be given a license at the absolute discretion of the Minister of Finance. This license would be renewable every two years and the Minister shall have absolute power to refuse renewal, when, in his opinion, in the interests of the country, such renewal would be justified.

(6) Prior to the license being granted, and on the application for the license being made, the Finance Minister, or his authorised representative, shall take an undertaking, which shall be duly confirmed by the board or supreme authority of the applicant bank; to the effect that, in the event of stoppage of payment, or of the failure of the bank, the local assets shall not rank *pari passu* with other assets, but shall be retained for the discharge of such obligations in this country as may have been incurred by the bank.

370. The Banking Committee can only indicate what is desirable. The task of translating it into law in clear and well-defined provisions, which could not be evaded, must fall on other shoulders. The restrictions, which should be imposed on foreign banks working in India, have been indicated in the Chapter XIV. Their economic justification has also been given. Some of them could be secured by administrative discretion, but in many cases legal enactments will be necessary.

Prohibition of branches in the interior by foreign banks and the removal of the existing branches 'ipso facto' involves the provision against their acquiring controlling interest in existing Indian institutions or setting up new institutions of their own ownership under the Indian law. A branch will have to be defined so as to prevent an agency carrying on all the work done at present, and the definition of controlling interest would have to be not 51 per cent. of the shares, but something like 60 per cent. There may be supplementary provisions to implement this, such as separate register in two classes, *viz.*, (*a*) a register containing foreign shareholders and (*b*) a register containing Indian shareholders. Provision will have to be made that a transfer of shares from (*a*) to (*b*) will take place as a matter of course, but transfer *vice versâ* will have to be scrutinised and certified by the directors. An obligation will have to be imposed on the directors of any institution to see that the controlling interest does not pass out in the hands of the foreigners and a periodical declaration will have to be taken from them by the Registrar of Companies* to that effect. It may be necessary to secure a declaration from every Indian purchaser of shares, who seeks transfer of shares in his own name, as to whether he is holding them for himself or in trust, and if they are in trust, whether he is a trustee of Indian-born persons or of others. There would have to be some declaration from the Indian shareholder, that he would not mortgage his shares, or pass out the voting power or proxy to a non-Indian. These are illustrative, but not exhaustive of the nature of the difficulties, which will be presented, but which are not insuperable. Similarly, with regard to the prohibition of the deposits of Indian persons and joint stock companies registered in India in foreign banks, a clear definition would have to be provided, and avenues of evasion would have to be shut out. Some liability would have to be created against foreign banks assisting in such evation, involving, amongst other things, the cancellation of their license.

In the matter of shutting out foreign banks from rediscount and loan facilities from the Reserve Bank of India, the act, which brings that institution in existence, would have to make a provision. It would have to provide also that Indian banks and private bankers, who receive such facilities, are not in working agreement

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* After the Bank Act is passed, it will be the new authority designated therein.

or partnership of any kind with foreign institutions, which would enable this regulation to be evaded.

Legal provision would have to be made for instituting a licensing authority and giving it the necessary powers of issue, renewal and cancellation, and of taking action on their own, with regard to the breach of the terms of the license. The terms of the license would also have to be defined and discretion to vary these terms, to alter and to add to them, would have to be given by law to those, in whom such discretion is intended to vest. As already indicated, if the board of the Reserve Bank of India has to do this work, provision will have to be made in the Reserve Bank Act, and the policy, which the Reserve Bank would be expected to carry out, will have to be defined. Failing that, legal powers would have to be secured for the Finance Minister of India, in consultation with the Standing Finance Committee, to carry out all obligations in respect of this license.

371. *Discrimination.*—The suggestion that regulation of foreign banks in India would do economic harm to India, is ridiculous, because the object is to secure India's economic wellbeing in the field of banking, which has an important place in the economic structure of society. It is because foreign holding in banking would perpetuate foreign hold on the economic life of this country, that regulation in different directions is asked for. The object of such regulation, as already indicated, is not enmity towards foreign institutions, but, consistent with minimum disturbance of the present situation, to secure a greater elbow room for Indian institutions. It has been urged that this would involve discrimination. The distinction between Indian and foreign is in India omnipresent in the thoughts of everyone, because it is a reality. In the minds of Indians, it exists, because discrimination has been in the past against them. In practice, it is unavoidable. There is discrimination at present against Indian institutions in the field of banking, in so far as they are subject to laws and regulations, which exist, and the foreign banks are free from these. In the field of insurance, it is much more marked, because Indian insurance companies have in some cases to put deposits with Government and to submit statements. The Government Actuary has, under the present law, certain powers with regard to them. In all these matters British companies are absolutely left alone.

The principle has been already accepted that, where there are protective measures of any kind and the benefit of these measures accrues to any institutions, Indian interests must predominate in such institutions. This is part of the accepted policy of Government. Protective measures in different directions for the benefit of Indian banks have been suggested by our Committee and the link in thought is not too far-fetched, which seeks to secure the reservation of certain fields for Indian banks. In the case of protection to local manufacture, what is accomplished by tariff and special railway rates could be only secured in the case of banking by a reservation. The distinction between Indian and

foreign interest has already thus formed the foundation of many measures accomplished and advocated. Merely on account of its involving discrimination, the regulation suggested herein should not be rejected.

If the benefit of subsidy, which the Indian taxpayer bears, should not go in foreign pockets, it also follows that privileges, such as exemption from taxes, could not be allowed to be used by foreigners. If the manufacturer could claim that he has a prior claim to the market and the purchasing power of the people, and that the market in India should be reserved for him, and if the legislature could act on this principle and pass measures in several directions, is there any reason why the Indian banker should not claim the benefit of the same logic?

372. *India's credit abroad.*—It was suggested by the foreign "experts" that, any regulations affecting foreign banks would destroy international goodwill and effect the credit of India abroad. The credit of India could not be lower than it is. The credit of India is the credit of Indians as a whole, and by intelligent economic reorganization Indians are more likely to gain both the confidence and the respect of the world, than by keeping open the door for exploitation. The nations of the world seek goodwill by reciprocity, but in the case of India, they seek the goodwill of England. In future, that will not be so. It is one thing to say that the nationals of other countries, who desire to have dealings in this country, should get protection, justice, courtesy and consideration. It is quite another to seek that the state in India shall not make reasonable and proper regulations for the economic activities in the country, regulations, for which many precedents exist all over the world. This is in spite of the fact, that in no part of the world the dominance of foreign interests reached the high water mark, which it has reached in India. In no part of the world are nascent interests in such a hopeless condition and exposed to such an unfair and uneven competition as in India. Vested interests and those, whose opportunities for exploitation, will be curtailed in this manner, are bound to set up an outcry. But India must put her house in order to secure her very economic existence. Prosperity for India will be very far off yet and on the principle that charity begins at home, the regulations indicated above seem to be necessary, and the sentiments of the outside world must be left to adjust themselves to the changed order of things. India will still try her utmost to give her co-operation, but any international goodwill is not worth having, if it is hanging on such a slender thread, that it could be withdrawn, if India embarks on an economic reorganization, long overdue.

II.—Regulation affecting Indian Joint Stock Banks.

373. *The Need of a Bank Act.*—Opinion was divided in the Committee as to the desirability of a separate Bank Act. A separate bank act would, however, make the position clear for people, who have to deal with the subject, both on the side of the banks as well

as on the side of the public. It will enable at the time of consolidation to put in various clauses, which are suggested by the majority, and some more, which are suggested by me. It would be necessary to examine the consequential effect of some of these regulations, which could not be introduced as an amendment of sections of the Indian Companies Act, nor merely as a supplement. The principle of joint stock is undoubtedly common between banks and other businesses, but there are serious material differences, which would justify a separate act. In the case of an ordinary joint stock company, business loss or failure through mismanagement or other causes would fall primarily on the shareholders. Where they fall on creditors, the creditors would have become creditors in the course of their business with their eyes open. Those, who give loans to a joint stock company, know what they are doing, and those, who sell goods on credit to them, are not obliged to do so, but deliberately take the risk because of the business advantage. The position of the depositors in a bank is very different. The bank is a *quasi*-public institution, more in the nature of a public utility. As the use of cheques increases, every man of any means would be obliged to keep a bank account with some bank or the other. The failure of a bank has a very far-reaching effect in discouraging banking habit and thus contracting the medium, by which the business of the community is done.*

The need for a special act would be evident in the examination of the regulations, which have been suggested. Thus the relation between authorised and subscribed capital, and subscribed capital and paid-up capital, is a matter, which in the case of an ordinary joint stock company, does not mislead anybody, but in the case of a bank, these figures have been known to take in unsuspecting members of the public.

Similarly, bad and doubtful debts, slackness and error would cause greater damage to the public in the case of a bank. Banks being lending institutions, apart from borrowing institutions, the question of loans to directors, etc., assumes a peculiar position. The expansion of banking has been admitted to be an important purpose of public policy and acted upon already in India through the Imperial Bank by Government. Restriction on branches of foreign banks in the interior, on the other hand, has also been recommended by a section of our committee. The establishment of branch offices of a joint stock concern has hardly any public aspect calling for regulation. Similarly, in the case of amalgamation, liquidation, controlling interest, and various other directions, banks occupy a position by themselves, and a separate law making definite provisions is much to be preferred. The occasion for enacting such law would also lead to the codification of case law on the subject. Several countries in the world, such as Canada, Japan

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* *Vide* Report of the Central Provinces Provincial Committee Report, regarding failure of the Alliance Bank, Para. 2286, and Report of the Madras Provincial Committee, regarding the failure of Arbuthnot & Co., Para. 504.

and United States of America, have a separate banking law and have found it useful.

374. It is, therefore, recommended that early steps should be taken to bring under one act provisions not only of the Companies Act applicable to banks, but other provisions scattered in case law or in other acts, as well as the recommendations made by the Central Banking Committee. The opinion of the commercial community should be obtained by Government on specific points. The opinion of the stock exchange and of the Shareholders Association should also be secured. It may be advisable, on material being ready, to hold a conference in order to ascertain this opinion.

All joint stock banks in India would be registered under the Indian Bank Act. The difficulties of providing a suitable definition of a bank were obvious, all the more because no such definition was found in the legislation of other countries. Under the rules made by His Majesty's Government in 1918 for excluding foreign controlled banks of enemy origin, a good description of all banking business was given in the following words:—

"Receiving money on current account or on deposit; accepting bills of exchange; making, discounting, buying, selling, collecting or dealing in bills of exchange, promissory notes and drafts whether negotiable or not; buying, selling or collecting coupons; buying or selling foreign exchange by cable-transfer or otherwise; issuing for subscription or purchase or under-writing the issue of loans, shares or securities; making or negotiating loans for commercial or industrial objects; or granting and issuing letters of credit and circular notes; except in so far as such operations form part of and are for the purpose of and incidental to the conduct of a business carried on for other purposes by the company, firm or individual by whom such operations are transacted."

This, however, does not help, as it would be in law of importance to define what a bank must not do. Foreign banks in this country have combined forwarding, passenger agents and other functions, and one concern combines bookselling, with banking. The tendency of the Indian private banker to combine trading with banking functions has already been noted. It would be essential that there should be provision in the articles of all banks eschewing activities outside banking. Steps should also be taken to secure such alteration in the articles of existing banks. At the time of the establishment of the Bank Act, Government might derive assistance from commercial opinion, as suggested above, and from a more complete information on banking law abroad than we were able to secure in the course of our deliberations.

375. I am definitely opposed to the institution of a license for Indian joint stock banks to commence business. The authority to commence business at present arises under the Indian Companies Act and if the existing provisions are not considered suitable, they could be altered, but, subject to these provisions, there does not seem to be any useful purpose in instituting a system of license for Indian joint stock banks, except as a solatium to foreign banks

in this country that Indian concerns are also under license. The freedom to trade is full and unrestricted to private parties, and in the case of a joint stock enterprise, it arises when the provisions of the law for the formation of the enterprise are fully satisfied.

The membership of the Reserve Bank will be a privilege, which every Indian joint stock bank will seek and ought to be entitled to. That itself will provide the machinery for securing information about banking activities in the country so far as the Reserve Bank is concerned.

376. *Use of the word ' Bank ' :* The use of the word ' bank ' by small concerns, which would mislead that section of the population, which is still backward, in opening operations with unscrupulous parties whom, but for the use of this word, they would not deal with, was brought to our notice. It was suggested that there should be a limit of paid-up capital for a banking institution, and this limit should be Rs. 50,000. Any institution, whose paid-up capital is less than this, should not be allowed to use the word ' bank ' or to be registered under the Indian Bank Act. Arbitrary limits of this kind are justifiable only through the practical purpose, which they serve. Experience alone must guide this country, as to whether this figure is not unduly high. I, therefore, recommend that this figure should be adopted, but that the Reserve Bank board should have the authority to recommend registration in the case of a concern, whose paid-up capital is less than this sum, provided they are satisfied from the facts brought to their notice that, with advantage to the public of the district where the proposed small bank is being established, this institution would be able to work satisfactorily.

377. *Capital.*—Discrepancy between subscribed and authorised capital and paid-up capital, was noted as an evil of advertisements, which led some sections of the public to put their deposits in otherwise moribund institutions, the paucity of whose real resources was concealed in figures of authorised and subscribed capital. The imposition of registration fees on the full authorised capital has not proved as deterrent, as was expected. It is, therefore, recommended that in no case with regard to a bank should the authorised capital be more than twice the subscribed capital, and that the paid-up capital should in no case be less than half the subscribed capital.* Uncalled liability on shares is a convenience to shareholders in so far as it enables them to save more money and to pay in, when the calls are made. From the point of view of the creditors of the concern, it is an advantage as there is so much unused capital, which, in the event of the company getting into difficulties, would be available to satisfy them. In the case of depositors of banks, this is an additional security, and in order that this security should remain intact in their interests, it should be illegal for the management to mortgage this asset of the company. These

* New banks should be given four months to call up the capital from subscribers.

provisions fixing the ratio between authorised, subscribed and paid-up capital, are arbitrary, but they are necessary, and it is not expected that they would hinder the growth of banking institutions. Existing institutions should be allowed some time after the Bank Act is passed to come into line with this provision, and it should be considered whether there is some way of avoiding heavy costs, which are unavoidable in connection with changes in authorised capital and in the memorandum, in connection with the operation of the reduction of capital, to enable existing banks to effect such change.

378. *Indian shareholders and directors.*—It has been already indicated that provision will have to be made in law for securing a majority of Indian shareholders. It has been suggested further that there should be also a provision for securing a majority of Indian directors. This is consequential, but it has been considered essential in order to prevent the control of Indian banking institutions passing in law or in effect, into foreign hands. The maintenance of a separate register for Indian and non-Indian shareholders is also clearly indicated and is recommended.

The power of directors of joint stock companies to refuse a transfer of shares and their registration in any particular name, cannot be modified in the case of banks, unless the general principle in its application to joint stock enterprise is sifted and examined. All powers, even when they are based on sound considerations of public advantage are liable to abuse, and it is not improbable that this power is also being abused to keep out parties, who would be able to guide other shareholders with regard to neglect or irregularities in the management. Some harm would, however, be done by taking away this power, as it would disturb the harmonious and peaceful working of institutions, resulting from parties inimical to the concern or to the directors being allowed to become shareholders. In the case of a banking concern, these considerations must weigh even more than in the case of an ordinary joint stock concern, and no change is, therefore, recommended.

379. In connection with dealings in shares generally several questions came up for consideration. One was whether the stock exchange should not adopt a more stringent practice with regard to blank transfers. The public revenue is deprived of stamp charges and the buyer takes certain risks. It is the fear that the turnover of shares would be less, if the practice of blank transfers were made illegal. It is recommended that the Finance Department ought to have consultations with the stock exchange authorities in order to reconcile the convenience of all sections concerned and meet the legitimate objections of the stock exchange against blank transfers being made illegal, by a specific reduction of stamp duty. It is expected that an arrangement of this kind will facilitate the work of the banks in a certain direction. The dilatoriness of companies and their boards in registering transfers submitted to them has been represented as a public inconvenience, and it is recommended that two months after the date, when the transfer reaches

the office of the company, should be the maximum, during which a company must register the share in the name of the transferee.

380. *Provision of Reserves.*—The phenomenon, which attracts marked attention in connection with Indian joint stock banks, more marked when one goes down to the smaller ones, is the struggle in the minds of the management with regard to the allocation of profits. If larger amounts are carried to reserve, so as to reduce the dividend, or make it impossible for a dividend to be given, the share values are affected, and if the share values are affected, the weakness of the bank is advertised and deposits are reduced. If, on the other hand, in order to maintain the share values, or even in order to raise them, with a view to gain advantages on the deposit side, high dividends are given, the building up of the reserves, which is an essential line of safety for banks, is neglected. In the inevitable cycle of business depression and boom, which arises in modern economic life, the building up of the reserves by banks is to be regarded as indispensable. In United States, Canada and Japan, where a special banking law exists, provisions of some kind are made. These provisions can be either limiting the absolute amount of dividend until the reserve is built up, or making it compulsory that a fixed proportion of the profits should go to the reserves. A fixed proportion of this kind would defeat the purpose, not merely because it may come to be regarded as the maximum, but because it would be an unwarrantable interference with the discretion, which would rest in the directors, and the responsibility, which they carry. I, therefore, recommend that it should not be open to banks registered under the Indian Bank Act to declare a dividend exceeding 6 per cent. unless and until their reserve fund equals half the capital, and to declare a dividend beyond 9 per cent. until the reserve fund equals the whole of the capital.

381. There should be a provision in the Bank Act, that would render illegal the granting of loans to the directors of the bank and auditors, or to any firms, of which they are partners. It is essential that the directors of banking concerns should be on the board to help the bank with advice and even with finance. But they should be above the temptation of having a loan for themselves from the institution, the affairs of which they are expected to control. The arguments are of even greater importance as applied to auditors. But the suggestion that a bank should not give loans to companies, in which the bank directors are also directors, does not appear to be sound. In such cases it is the duty of the co-directors to be on their guard and to examine the application for a loan carefully, if necessary, in the absence of the common director. The presence of a bank director on a company in other countries is actually contrived and brought about and encouraged, wherever the loyalty of the common director to the bank is paramount and is prior.

It should not be permissible in law for a bank to make any advances against its own shares.

382. *Audit.*—The existing rights of shareholders in the appointment of auditors are not fully realised by them. The appointment of auditors is, in most joint stock companies in India, the gift of the board. No change of law is wanted to remedy a situation, which lies in the hands of the shareholders. It is, however, essential that the shareholders alone should have the right, not only to appoint the auditors, but to supervise all remuneration given to them. It should not be legal for the management to give to the auditors of the bank any extra remuneration, which is not approved of and confirmed by the shareholders. Auditing of branches is at present not required by company law. Returns are sent up from the branches certified by the branch manager. The purposes, which an audit is expected to serve in a joint stock company, would be altogether defeated, if a third party in the person of the auditor does not look at the accounts. An audit can check visible frauds in account and can bring to light irregularities. The number of auditors available in India is much on the increase and the remuneration, which they stand out for, would also not be excessive. Auditors, who have settled in mufassal centres and in places, where a bank has branches, would be available for services and it seems in this direction, there is much room for improvement. The question of additional cost of such audit was raised. Such additional cost is inevitable, but, as indicated above, the use of local auditors ought to reduce it considerably. The ease, with which non-audited branch accounts would permit frauds in accounts, is so great that a legal provision is required and I recommend that the new Bank Law should insist on all branches of banking institutions to be audited, though not necessarily by the principal auditor, who may be appointed at the annual general meeting.

383. *The form of Balance Sheet.*—The form of balance sheet provided in the Indian Companies Act is unsuitable to the special requirements of banks. A new form is desirable and has been prepared by the Committee.

FORM OF

Balance-sheet as at

Capital and Liabilities.	Rs.	a.	p.	Rs.	a.	p.
CAPITAL—						
Authorised Capital......shares of Rs..........each .	...	...	...			
Issued Capital......shares of Rs..........each .	...	...	...			
Subscribed Capital......shares of Rs......... each .	...	...	...			
Amount called up at Rs..........per share . .	...	...	...			
Less—Calls unpaid	...	...	...			
	...	...	...			
Add—Forfeited shares (amount paid-up) . .		...	...			
				...	...	...
LOANS ON MORTGAGE OR MORTGAGE DEBENTURE BONDS				...	...	...
RESERVE				...	...	...
(Details of separate funds, if any, may be given.)						
LIABILITIES—						
Current and Savings Bank Deposits . . .	...	...	...			
Fixed Deposits	...	...	...			
Debts due to Banks, Agents, etc., fully secured against securities *per contra* . . .	...	...	...			
Debts due to Banks, Agents, etc., unsecured . .	...	...	...			
Bills payable	...	...	...			
Sundry Creditors	...	...	...			
Unclaimed dividends	...	...	...			
				...	...	...
ACCEPTANCES FOR CUSTOMERS *per contra* . . .				...	...	...
BILLS FOR COLLECTION BEING BILLS RECEIVABLE *per contra*				...	...	...
PROFIT AND LOSS—						
Balance as per previous Balance-sheet . . .	...	...	...			
Less—Appropriation thereof	...	...	...			
Balance brought forward	...	...	...			
Profit since last Balance-sheet	...	...	...			
				...	...	...
				...	...	...
CONTINGENT LIABILITIES						

BALANCE SHEET

________________Limited.

________________19 .

Property and Assets.	Rs.	a.	p.	Rs.	a.	p.
CASH—						
Cash in hand and at Bankers	...	..	...			
Deposits at Call and Short Notice . . .	...		...			
Bullion in hand	...	...	...			
				...	...	...
INVESTMENTS—						
Gilt-edged or Trustee Securities	...	...	..			
Debentures	...	...	...			
Other items	...	..	...			
(*N.B.*—It should be stated here that the above-mentioned securities have been valued on the basis that "the valuation is not in excess of cost or market price, whichever is the lower". If the securities stand at a value in excess of that basis, the amount by which their value exceeds that basis should be given.)				...	...	...
BILLS RECEIVABLE *per contra*				...	..	...
LOANS AND OTHER ADVANCES—						
Cash Credits and Demand Advances . . .	...	...	..			
Loans	...		...			
Bills Discounted	...	...	...			
Sundry debtors and Debit balances . . .	..	..	...			
(*N.B.*—The following statement should here be appended :—"These Loans and Advances are shown after deducting full provision for doubtful debts." If this has not been done, any balance of doubtful debts not fully provided for should be shown in (3) below.)				...	...	...
Included in the above-mentioned total are the following :—						
(1) Debts due by directors or officers of the Bank	...	..	...			
(2) Other debts for the repayment of which a director is responsible as guarantor or otherwise	...	...	...			
(3) Doubtful debts not fully provided for .	...	...	...			
DUE FROM CUSTOMERS FOR ACCEPTANCES *per contra* .				...	...	...
LAND AND BUILDINGS (AT COST) . . .	...	...	...			
Less—Depreciation written off . . .	...	...	...			
				...	...	...
FURNITURE AND FIXTURES (AT COST) . . .	...	...	...			
Less—Depreciation written off	...	...	...			
				...	...	...
OTHER ASSETS				...	...	...
PROFIT AND LOSS (giving in the case of a debit balance details as far as possible as in the case of credit balance).				...	...	...
				...	...	...

384. The problem, with which the Committee was faced, was, whether information in many directions, which, it was suggested, should be given in the balance sheet, should be insisted upon. It was brought to our notice, for example, that the statement as required by law now distinguishing book debts, in respect of which the bank is fully secured, and those, for which the bank holds no security, was deterrent to the progress of banking. Individual shareholders, whose capacity to comment on the policy pursued by banks in respect of credits may not be always high, are more prone to get unnerved at a figure of unsecured loans in the balance sheet. 'Unsecured' is a technical banking term and does not necessarily mean 'unsafe.' We have, therefore, recommended that this distinction should be done away with in the balance sheet. The next important change from existing practice is the clearing-up of the expressions used with regard to the provision for bad and doubtful debts. It is better that bad debts should be written off and provision should be made for doubtful debts and the total figure of the loans indicated, after deducting such provision. A statement is necessary, where no such provision is made, or the provision made is not adequate. This suggestion is in conformity with practice elsewhere and it is considered to be in the interests of the shareholders themselves.

It will be noticed that the balance sheet suggested also eliminates doubts attaching to the valuation of securities. The principle fixed is a conservative principle, *viz.*, that the valuation is not in excess of cost or market price, whichever is lower. It would be open to bank authorities not to exceed this limit, but to mark down the securities as a matter of policy for the purpose of building up a secret reserve.

The suggestion of many witnesses for different kinds of information to be included in the balance sheet had to be rejected, because, whereas the balance sheet would give information to the shareholders, it would also place this information before the public, and, in particular, in the hands of rival institutions. Indian banks, which are working at great disadvantage in this country against foreign competition, should not be made to publish more details of their activities, which may fall into undesirable hands, than what alien banks have to show in their own country. The balance sheet should be, therefore, drawn up on this basis. It is hoped that, while making a definite improvement on the present balance sheet provided in law, it will satisfy a public need.

A separate statement required under section 136 in the form marked "G" in the Third Schedule of the Companies Act is by no means complete and satisfactory. No object is served in getting out bank figures on a different basis for the purpose of exposing them in a conspicuous place at the registered office of the company and in every branch of the place, where the business of the company is carried on. It is, therefore, suggested that a copy of the balance sheet should serve for this purpose, and obli-

gation on banks to produce a separate statement should be abolished.

385. *Amalgamation and Liquidation.*—It has been already emphasised in this report that the controlling interests in any Indian banking institution should not fall in foreign hands. It is also essential that the central banking authority of the country should be fully aware, if the controlling interest of the bank in the country has been acquired by another bank or by any other party. There should be an obligation in law on the board of directors of banking institutions to give information to the central banking authority in the country, whoever they are under the Bank Act, about controlling interest in their institution having passed out to other people, or about their having a controlling interest in another institution. The object of such a provision would be that the central banking authority of the country would know precisely what is going on and would not have to rely on rumours and indirect information. The Reserve Bank would be interested in the affairs of banks not only in the matter of compulsory deposits, but in various other ways. It would be also expected, as suggested below, to help in the event of a concern getting into difficulties. This information should be, therefore, first-hand and authentic.

With regard to amalgamations in India for some time to come they would be a blessing in the case of smaller institutions. Amalgamation leads to an economy both in management, cash reserve and in many other ways and strengthens the institutions, except where the size of the institutions is already so large that the room for economy is restricted. The Reserve Bank, as the central banking authority, would in all such cases help in the amalgamation with advice. There may be, however, cases of amalgamation, where the amalgamation is the result of the weakness of one of the insititutions, or is being forced on a smaller and sounder institution by a more powerful and unscrupulous bank. It is, therefore, recommended that no amalgamations between banking institutions in India should take place without the permission of the central banking authority. This permission would be withheld in rare cases, but there should be somebody with power to prevent the accomplishment of an object, which would lead to restriction of banking, or to any other public disadvantage.

386. It has now been recognised all over the world that it is not desirable to allow a banking institution to close its door suddenly and abruptly without something being done, because of the reaction on the market generally and the creation of a panic affecting other banking institutions. In the case of banks, sometimes it is not the paucity of assets, but its ability to meet the immediate calls, which causes failure. In such cases a temporary moratorium has been used elsewhere in the world to put banks on their legs again with benefit to all the parties concerned and to the economic life of the country. Such a thing cannot be done in India, unless somebody is definitely charged with the obligation, and also has the resources.

Threads of such policy are discernible in the action taken by Government with regard to the Provincial Co-operative Bank in Burma and by the Imperial Bank at the instance of Government with regard to the Alliance Bank of Simla, by which, pending the prolonged process of liquidation, some relief was made available to the depositors. It is, therefore, recommended that provision should be made, by which the Reserve Bank would be the party, to whom a bank in distress would have to go. If the distress is such that the bank could be helped out of it without a catastrophe, the Reserve Bank will do so. Where the estimated value of the assets falls below the liabilities, there is sometimes room for reconstruction by consent of parties concerned. Where the liquidation is therefore, by the ordinary process of law, or, in the hands of a liquidator appointed by the court, there are many practical and legal difficulties. The public advantage in the case of banks lies in a simpler procedure and in the powers being vested in the central banking authority, by which, if it is at all possible to avoid a disaster, they should be enabled to avoid it. It is, therefore, suggested that in all cases a liquidator should be appointed in respect of banks registered under the Indian law, by the Reserve Bank of India. It would be the Reserve Bank, who will have the obligation of giving such relief immediately to the depositors as may be possible, but this would be a matter entirely of discretion of the board.

387. Many suggestions would be found in the evidence tendered to us demanding meticulous regulation in many directions. Except what is recommended above, none of these have appealed to me, because legal provisions could be no substitute for business judgment and wherever they fetter business judgment in the legitimate activities of the bank, they might do no good. Law cannot decide what is safe and what is unsafe and law cannot be kept up to date with the changing economic conditions, which render unsafe to-day, what might have been quite safe at some period in the past. Putting a law on the statute book involves both effort and time and securing its repeal makes equally a call on the resources of the state. Laws must not be made in a spirit of panic arising out of any isolated catastrophe. Facts revealed in failures of banks, where there was fraud, could not be put right by detailed directions as to what banks should not do, or should do. The tendencies of human nature could not be corrected except by deterrent punishments, where frauds are detected. It was pointed out that at the present moment the obligation to secure deterrent punishment on delinquents in the interests of the community, was not being discharged. A liquidator is interested, where he can add to the assets, which he will distribute, and he is often deterred by the question of cost. The improvement of the general tone of company management, and of joint stock banks in particular, could be secured not by a more stringent regulation, but by a much more stringent application of such regulation as exists. Shareholders, who take keen interest in the affairs of their com-

pany, can render great help in improving those affairs by intelligent and timely comments and warning on the particular policy pursued. But the rights given by law to shareholders can be abused with fatal results in the case of banking concerns, where shareholders file suits for trivial matters, or on the smallest provocation or faulty information. Without interfering with any inherent rights of shareholders, the publicity attached to criminal complaints by shareholders might be very considerably reduced, if the obligation is laid on the Law Officer of Government to examine the subject matter of complaint and to allow a prosecution, only if he is satisfied. It should be also possible to have proceedings in camera before a magistrate, where the complainant is a shareholder and the bank and the directorate are on their defence, until the stage where the magistrate is satisfied that, what will go out to the public will not be the facts on one side only.

III.—CONSEQUENTIAL CHANGES IN LAW.

388. As a result of recommendations of Provincial Committees and the recommendations made in the previous part of this report, numerous changes will be called for in more than one existing law affecting the different classes, who will have to deal with banks, and affecting the banks themselves. There would have to be changes in personal law and in the law of joint family and inheritance, eliminating the uncertainties attached to the position of the lender. Laws relating to tenure and laws affecting transfer and other rights in property by the tenant, would have to be brought in accord with the economic need of modern life. The Land Revenue Code in various provinces would have to be altered, providing not only for the payment by cheques, but for summary recoveries, or recoveries of items added to the land revenue as a consolidated demand, and for procedure of revenue courts. Some indications are given in the body of the report with regard to these, such, for example, as will apply to mortgages, including mortgages by banks or in their favour, the registration of mortgages, etc. There will be the consequential changes, if our recommendations are accepted in the Transfer of Property Act and the Stamp Act. There would have to be changes in the scale of court fees and in the general procedure with regard to suits for recoveries of simple debts as well as secure debts, and the realisation of such security by the lender. Change would be also wanted in Criminal and Civil Procedure Code Amendments would have to be made to the Indian Companies Act with regard to the managing agency system, and in the Insurance Companies Act and in the Indian Life Assurance Companies Act. Some recommendations of the Provincial Committees affect the Negotiable Instruments Act. Provision in law would have to be made for various classes of institutions, which collect money from small men. The Committee had difficulty in coming to any useful detailed decisions on this subject, not merely through the lack of time towards the close, but also through the paucity of

working lawyers among its members. Had we been able to put the legal points arising out of the evidence and the Provincial reports before the Law Member of the Government of India and to receive his advice, it would have been possible to make a more precise statement. I shall, therefore, content myself with indicating the gap and with a recommendation that all legal points arising out of the Provincial Committees' reports as well as the majority and minority reports of the Central Committee, should be summarised for examination by the Legal Departments of Provincial Governments and the Government of India.

CHAPTER XXI.

MISCELLANEOUS.

389. *Credit for handicrafts and small industries.*—India is the land of small things in economic matters at the bottom. The counterpart of the small agriculturist, who, in the opinion of competent authorities, is already working on an uneconomic basis and in many cases without any surplus and with the prospect merely of a bare existence, is the small artisan living at the margin and equally exposed to economic and financial difficulties. The nature and variety of these is great in different provinces and they are not the same in all provinces. The conditions have been examined by the Provincial Committees and the undertone of their remarks appears to be, that they have by no means exhausted the description or the analysis into the artisans' conditions. There are those, who have already lost ground in competition with imported articles, or with articles emanating from large factories, and their number must be considerable. There are others in the field of handicrafts, who survive either because machine-made articles do not compete on account of the demand being small and sporadic, or, because they are carrying on their operations out of the way, where commercial organization for the imported and factory-made article has not yet reached, or, because, there are sentimental or religious grounds keeping up a certain amount of demand for certain kinds of articles. There will be also enterprises, not necessarily of the handicrafts kind, but of the workshop kind, which derive their strength and sustenance from their predecessors, having acquired useful plant at a knock-down value. It is merely as an exception, that one would come across a vigorous and prosperous small industry, or handicrafts, which could defy competition of machine-made or imported article. Whatever the reality may be, it is the belief generally held, that small industries will not succeed, which is a serious deterrent to proper finance reaching these parties.

The small industry does not carry stocks or anticipate demand. It has difficulties in securing adequate and suitable raw material and paying for it, and also in selling the commodities produced and realising a fair price. Those, that have skill in manufacture, are called upon also to have skill in buying and selling, and without a proper combination of both, success cannot be achieved. Even where these factors are present, there is no regular machinery for financing, and the finance, therefore, takes the form of advance from the buyer, or of credit from the seller, giving either of these parties the determining voice in fixing the price. The surplus left in the hands of the artisan or of the entrepreneur is thus seriously eaten into.

390. Co-operative societies for the purchase of raw material, or for the sale of commodities, have been indicated and would undoubtedly be a blessing, where they can be started and run success-

fully. Any one observing the life of men engaged in handicrafts, artisans, and small home industries, small workshops and the like, would have noticed that, apart from being at a disadvantage in bargaining in the purchase of raw materials and selling the finished articles, these classes spend an inordinate amount of their time in this matter, more especially in the matter of the sale. In the higher field of industry, it is now definitely recognised that manufacturing and selling are two quite distinct functions, but with the small man in India, these two functions have necessarily to be combined. If the supply of raw material, or the sale of article could, therefore, be arranged either on the basis of co-operation, or on the basis of some central association, authority, or board, undertaking the supply of material and setting up sale depots, not only would the problem of finance be easier, but other conditions would be improved. I, however, take a pessimistic view with regard to the success of co-operative organizations amongst the type of people, whose financial needs are being discussed.

The wave of voluntary preference for home made articles known as the Swadeshi movement, which has spread all over India, must have put more life into these people than all the measures hitherto taken by the state with the intention of helping them.

391. Whatever can be done for this class must be done, because, the fate, which awaits them, when they are thrown out of work, is a hard fate from their point of view and very objectionable from the point of view of the community. Industrial progress in the world is reckoned by the increase in the number of skilled workers inside a community. That is the human standard, which is much to be preferred to the standard usually employed, *viz.*, the output value of manufactured articles. In India whatever progress may have been achieved on the side of the growth of factories, in the matter of handicrafts and small industries, cottage industries and home industries, there has been a serious setback. More skilled labour has been turned into unskilled in the last fifty years than *vice versâ*.

The village economy and self-sufficiency has broken down. More and more imported articles are entering into use even of the villagers. The lighting material has reduced local oil. The imported vegetable ghee has hit the dairy. The imported implements and the much-vaunted motor transport have hit the village blacksmith. In semi-urban areas, many skilled occupations have been rendered unprofitable by the use of the imported building material. There has been no census of production and, therefore, no idea could be given quantitatively of the setback in handicrafts and cottage industries. Official reports review with a great gusto the increase in trade in imported articles, but the distress and human embarrassment to skilled artisans in India, through such imports has not hitherto found prominent mention anywhere in official documents.

There is, on the one hand, a definite suggestion that industry should be created, in which the spare time of the cultivator could

be used.* According to the United Provinces Committee, the peasant outside the more intensely cultivated areas is occupied for not more than two hundred days in the year. All industry requires skill, even if it is not of a high technical character, and the proposal, therefore, is that work should be found for the unskilled in the field of industry. Further proposals take the form of state aid to industry, encouraging the foundation of new industries based on, in the words of the Royal Commission on Agriculture, " the development of new ideas, such as the supply of attractive patterns, careful and thorough instruction in modern processes, finding markets in and outside the locality." I do not think that there is no room for all these. I think in many directions, much can be done, particularly where valuable material is thrown away or wasted, and in the utilisation of waste products of all kinds†. There is also a scope in toy making, but I put forward the suggestion, that protective measures are more necessary for such skilled work, as is still carried on in rural areas, and is being very fast displaced. The tragedy of it is that this process is going on, while there has been a public demand for technical education, and large sums have been spent for imparting such education in institutions. No institution can compete with the home system. which created skilled artisans in India. While much has been done towards technical education outside, the displacement of skilled labour has gone on without any one raising his little finger against it.

392. The tragedy of the artisan in India is not merely in the sense that he loses his independence. It is that he loses the use of the hereditary skill, which he has acquired. One hears that weavers and skilled artisans thrown out of their occupation have migrated abroad to work on plantations. When the economic life of a country is being assailed by forces of this kind, two sets of measures are called for: one, which will maintain the artisan, as artisan and in his independence, and the other, which will enable him to step down to the position of a wage earner, but still engage in some skilled trade, in which he has been brought up. It is the paucity

* The importance of industrial finance is emphasised by all the Committees. The Bombay Committee say that owing to climatic conditions and the prevailing system of tillage India cannot continue to depend on agriculture alone for maintaining the bulk of her people in a decent standard of living and that she must build up industries which may give employment to the surplus and the partly employed population.—(Bombay Report, paragraph 169, United Provinces Report, paragraph 345.)

† The Bihar and Orissa Committee also point out that the pressure on land has reached its limits and can only be relieved by emigration or by an active industrial policy.—(Bihar and Orissa Provincial Report, paragraph 197.)

There is room for pioneer work by Government in new industries which offer good promise of future development but have not been tried.—(Burma Provincial Report, paragraph 294.)

A proper industrial survey of the various districts should be made followed by a persistent campaign to encourage the industries likely to be successful.—(Central Provinces Provincial Report, paragraph 1329.)

of measures in the second direction, substantiating merchants, who would engage these skilled artificers, which is most noticeable in India. If state aid, or any other machinery, cannot reach the artisan himself directly, it would be still useful to help him through middlemen, who will maintain in the country skilled workmen and add to the total of local manufacture.

The question is of preserving what is there, instead of building up something new, and the amount of effort and sacrifice required for preservation is much smaller than that wanted in creating something, where it did not exist before.

I cannot recommend with confidence any special measures for securing finance for the small artisan. I doubt if he would be within the reach of the provisions of the State Aid to Industries Act, *i.e.*, whether any action under such an Act could touch more than the smallest fringe of artisans. The man engaged in small handicrafts is wedded to the district in many ways, and the improvement in his ability to secure finance must follow the improvement in the supply of credit generally in the district,* the closer retention in the district of the savings of the people of the district, greater life and hope being put into the private banker, and calling into existence more local banks, which would understand the conditions. The general measures suggested in this direction elsewhere ought to react favourably on the life of the artisan.

393. *Provincial Committees' Recommendations.*—These were examined by the Committee as a whole and various comments were made on them. I have indicated in the body of the report directions, in which I have endorsed the Provincial Committees' recommendations, differing from the view taken by my colleagues. The responsibility of the Central Committee in rejecting a recommendation by a Provincial Committee was great. I have not rejected any recommendation, lest the further consideration on the subject involved in the recommendation should be shut out. Provincial Governments will have to examine the spirit of the recommendations in each case in its relation to the ideas underlying the report of the Central Committee and will have to act thereafter, as they think best.

394. *Mortgage Credit and Equitable Mortgages.*—There is no subject of our enquiry, on which the unanimity of the Provincial Reports is more evident than on the question of improvement in the nature of the security, which borrowers as a class have to offer, reform in the procedure of borrowing, reduction in the costs of borrowing operation, and reduction in the delays attaching to recoveries by the lender. The general principle underlying herein may be endorsed, but its application would require the modification

* The Bombay Committee have also suggested that banks collecting deposits in the mufassal should also keep in view the internal trade needs of the locality. For this purpose, periodical statistics regarding the total deposits received and the total advances made by different banks in different areas should be collected and published by the Central Banking Institution. —(Bombay Provincial Committee's Report, paragraph 164.)

of both law and procedure in many directions. It is recommended that such modifications should be made. It would require, with regard to agricultural land, a better Record of Rights and greater facilities for getting at the record. It would require the elimination of doubts with regard to title arising from presumptions of joint family, maintenance and other claims, and proof that the loan was for family purposes and used as such. The costs in connection with mortgage transactions are partly stamp duty and registration, and partly legal and other costs, and anything, which the state can do to reduce these, would give relief to the borrower, who bears the whole cost. The willingness of the lender is also influenced by the aftermath arising from default, by the procedure in courts and the delays, which a struggling debtor is able to interpose unnecessarily against a lender. The idea, that costly processes and delays are a method of protecting the borrower, is a wrong idea. The debtor always pays, not only the costs pertaining to his own transaction, but more, because the lender averages out the good debtor with the bad one. A good debtor, therefore, pays more than the costs and it is all lumped up in the composite charge of heavy interest. Banking is, in practice, on one side, a lending activity, and great impetus will be given to banking, other things remaining the same, by carrying out the spirit of these recommendations of the Provincial Committees, which I endorse. It is hoped that the paramountcy of the object in connection with this will overcome forensic obstacles based on legal technicalities. If there is a desire in India for beneficial economic change, India must show her readiness to adjust her procedure and law in directions, where such adjustments are imperatively called for.

395. The system of equitable mortgages by a simple deposit of title deeds is much prized in contrast with the system of legal mortgages. For obscure reasons, this system came to be introduced in the principal ports. The advantage of this system is in the simplicity of procedure, which saves the time, and in the materially lower stamp duty, which has to be paid. Provincial Committees have asked for this system to be extended. The Bombay Committee have asked for power to the Provincial Government to declare areas, in which the system of equitable mortgages would become operative. The system could not be particularly unsafe, if it has been in vogue and has been much prized in eight principal ports in this country. There could be no definite grounds of public policy against its wider introduction, if no suggestion ever emanated that the facilities at the ports should be curtailed. I do not know what first led to this system, but it is said that these facilities were created at the instance of the Scotch bankers, who established themselves at the principal ports and who were used to this system in their country and asked for it. I would much like some research scholar attached to a university to go into the origin of this. As a practical measure, however, if it is good for the ports, it must be good for the interior and for many more places in the interior, instead of for a few selected places. Every place is an important centre of credit

looked at from the point of view of the population of that place. Otherwise it would be of more importance to have this system in vogue, where there is only one banking institution than at the ports, where there is a large number. Like all things, reforms must be on lines of caution. I would, therefore, recommend the widest extension of this system and I would give discretion to the Provincial Governments to make the necessary declarations regarding the places, to which these rights are extended. The proposal to simplify mortgage procedure and to make it cheaper will have to be justified on its own merits in its application to all parties, but banking institutions have a peculiar claim on the support of the state. They may not be expected to abuse the privileges given to them and in their case, at all events the extension of this system to most of the important places in the interior may be recommended, where a Provincial Government for some valid reason is opposed to a wholesale extension.

396. *Bills and Cash Credits.*—Foreign banks in this country have consistently encouraged the idea of cash credit and discouraged the idea of bills. Cash credit involves the relation of one firm only with the banker. If the banker, instead of giving a cash credit, were to discount a bill for the same firm, it would involve, in addition, a third party, *viz.*, the party, from whom the firm has purchased. In the case of European firms, this would involve the name of an Indian seller in some cases. I do not wish to ascribe any motives to those, who have consistently encouraged the system of cash credits. It was probably convenient on the part of the banks to have a single account for a large sum with a large firm, instead of having a miscellaneous bunch of bills sent over to them for being discounted from time to time. From the point of view of the customer of the bank, the cash credit is an advantage in so far as it gives the customer the option to pay in the money at any time, *i.e.*, whenever the goods are disposed of, or when they are shipped and a foreign bill is drawn with the shipping documents and discounted.

The cash credit becomes naturally available to large firms. It was admitted by the representative of the 'exchange' bankers that when the facility was given in the first instance, no material security existed, but the security came in as the purchases were made, while the goods were being treated and were being despatched. It is in the nature of a clean advance, though the client has expressed the intention of using this advance for a specific purpose. There is no legal liability on him to use it in that manner. The Bank has, as a matter of fact, no control. Only first class firms, therefore, become eligible for clean advances. The smaller firms, —and, therefore, a very large number of Indian firms,—cannot get advantage of this system. Further, if trade bills were coming in in large bulk, the bank would gradually get to know the names of the parties. The system of cash credit prevents this. It is, therefore, at the root of that lack of touch, which has been admitted by foreign "experts" as well as noticed by our Committee.

This situation is a great evil from the banking point of view. The existence of trade bills gives to the banks a self-liquidating asset, which is the best form of investment for them. The cash credit, on the other hand, leads to the elimination of credit instruments, as it enables these large firms to draw cash from banks and make payments for goods purchased in cash. It militates, therefore, against the growth of credit system on sound lines. The ideal credit machinery has all the links together, involving a spread-out of the risks. The growth, therefore, of cash credit gives cause not for rejoicing. It is a deterrent symptom. Its discouragement is essential and the desirability of encouraging bills in lieu of cash credit has been recognised.*

397. I, therefore, recommend the abolition of the stamp duty on internal bills of exchange. The recommendation should be given effect to within a period of five years and as an initial step the stamp duty on all bills of less than one year's usance should be reduced to a uniform rate of two annas per one thousand rupees. But I seriously apprehend this recommendation would not be of much avail. The Provincial Governments, most of whom find themselves in difficult financial situation now, would not be able, on financial grounds, to abandon a source of revenue, however small it may be, and the recommendation might prove to be a mere pious wish. This would be catastrophic, as there is no salvation for Indian banking without the growth of bills, and the immediate reduction of stamp duty, as indicated above, is called for.†

I therefore, suggest that only, where a Provincial Government finds itself in a very tight corner and is unable to give effect to the recommendation for the reduction of stamp duty on bills, it would be better if they were to replenish themselves for the loss from such reduction from a levy *ad hoc* from every cash credit with banks to the extent of Re. 1 per Rs. 1,000 but opinion of banks and commercial bodies can be invited to enable the rate to be fixed.

In the present condition of banking in India, I am averse to every tax on banking operations, because a tax is a deterrent, but a tax is also a very powerful weapon in the hands of the state, and there is every justification, when it is used as a corrective for tendencies harmful to economic growth. To the extent to which the reduction in bills will relieve the customers of banks, a like burden on them in substitution thereof would not mean a departure from *status quo*. On the other hand, if the desirability of

* "Experience in many countries shows, however, that Central Banking depends on the existence of an organized bill market. If the outcome of the present discussions were to be the popularization of the bill of exchange amongst Indian traders and bankers, a great step forward would have been taken. Not only would this facilitate the introduction of reserve banking, but it would assist the linking up of private bankers with the joint-stock banks."—("Banker," January 1931, page 109.)

† Other measures suggested in connection with the hundi are, the standardisation of the form, greater and less costly facilities for them 'being noted' in the event of dishonour, and simpler procedure at law in the event of default.

discouraging one form of accommodation granted by a banker to his customer, and of encouraging another form of accommodation granted by the banker to his customer, is recognised, the tax, which I am proposing, would certainly have that effect. In any case, I am anxious to make sure that the reduction of stamp duty on bills would not be put off on financial grounds. A high stamp duty on bills is burdensome, because the harm to the economic life of the country is very much greater than the benefit to the revenues of the state.*

398. *Reduction of stamp duty on share transfers and debentures.* –There was a unanimous feeling in the Committee, that transfer charges should be reduced, and I recommend that they should be immediately brought down to four annas per cent. It is further important, that they should be uniform all over India. The issue of bearer debentures, which would not carry any duty, should be permissible with freedom to the holder to get them registered on payment of the fee, the principle being, that those alone will bear additional charges, who desire addtional safety arising out of registration.

Great stress has been laid on debentures as a form of suitable investment for the investor and as a form of suitable loan for the borrower in the industrial field. In order that money may flow freely and with more confidence from the investor to industry, this is very desirable. The handicap to the issue of debentures, however, at present is the heavy duty on the issue of $\frac{3}{4}$ per cent. *plus* charges for registration of the indenture, or trust deed of debenture. Heavy charges on capital operations discourage these capital operations. If the growth of industry in India is considered desirable, then the manner in which capital can flow into industry should be free from a heavy charge. I, therefore, suggest that in the case of industrial debentures, the duty should be reduced from $\frac{3}{4}$ per cent. to $\frac{1}{4}$ per cent. leaving registration charges as they are at present. $\frac{3}{4}$ per cent. may not be a very heavy charge for the issue, if the debenture is spread out over fifteen years or more, but where the debenture is for a shorter period and when it is intended to encourage the habit of borrowing by the debenture method for short periods of two years, three years, five years, or seven years, the existing charges add materially to the interest rate, so far as the borrowing company is concerned.

The question of commercial stamps itself is in the melting pot and the recommendation, therefore, would apply whether the

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Stamp-duty on Usance Hundis.—Usance *hundis* having a period of less than one year must bear a stamp of value according to the prescribed scale which comes to roughly three annas for every Rs. 200 up to Rs. 2,500 and then by steps of Rs. 2·25 to Rs. 10,000 and by larger steps after that. After Rs. 30,000 the steps are regularly Rs. 9 for every Rs. 10,000. In Great Britain the stamp-duty on a bill of exchange is equivalent to only eight annas per Rs. 1,000 and is, therefore between one-half and one-third of the duty in India and Burma and it rises by smaller steps. The Indian Taxation Enquiry Committee in 1926 recommended a reduction of duty in India and Burma. *Burma Provincial Report, para. 340.*

income from commercial stamp went to the Provincial Government, or, according to the Layton scheme, commercial stamps became federal. Without going into the larger questions of relative burdens of taxation, or of the propriety of expenditure in various directions, I would say that it would be found on closer examination, that the reduction of rates might actually bring in the same money to Government because of the encouragement, which it will give to these particular instruments. At all events, it should be tried.

399. *Remittance.*—The Imperial Bank of India has withdrawn the concession which it gave to its customer of cashing its own cheques on any of its branches free of charge, so long as they did not exceed Rs. 5,000. Some Provincial Committees have suggested the restoration of this concession.* The maximum charges, which the Imperial Bank may levy, are fixed by the Controller of Currency and they are as follows:—

Rs. 10,000 and over . . .	$\frac{1}{16}$ per cent.
Rs. 1,000 to Rs. 10,000 .	$\frac{1}{8}$ per cent.
Under Rs. 1,000 . .	$\frac{1}{4}$ per cent. with a minimum charge of four annas.

The rates are of course the maximum rates and it is within the discretion of the bank to charge any rate below the maximum.

It is obvious that, on the one hand, through the money order rates, and, on the other hand through these rates Government set the standard, which the banks follow. The purpose and policy behind Government's action hitherto do not appear to have been clearly defined. A reduction of remittance charges all round has not hitherto become an object of state policy, but there is room for considerable improvement, if it is now accepted as an important purpose on the recommendation of the Central Banking Committee.

The creation of larger remittance facilities and of reducing the charges in connection therewith with regard to all the agencies, through which remittance is made, was the burden of Provincial Committees' recommendations. In this matter my suggestions would be brief. I consider that the initiative must come from the top and I have, therefore, recommended that branches of the Reserve Bank should exist in at least one centre in each province, and that all transfers between such branches on behalf of member banks should be free of cost. This will initiate the principle of making remittance free under certain circumstances and the extension of this principle would be secured, either when the Reserve Bank has more branches or when public opinion presses for this concession to be extended by other banks including mofussil agents of the Reserve Bank.

The existing system of telegraphic transfers and supply bills to and from places, where there is no branch of the Imperial Bank of India, is costly. I do not know whether the scale has been

* Refer Bombay, para. 187; para. 202; Bihar and Orissa, para. 202; Central Areas, para 231.

fixed on the basis of actual out of pockets. I fear that the charges at present imposed are more with a desire to follow the market than to give it a lead. It may be true that the Imperial Bank, by the establishment of its branches, has brought down remittance charges between various places, but the existing charges of the Imperial Bank are by no means low. They do not compare favourably with remittances in other countries. Banks, *i.e.*, foreign and joint stock both, are given a concession rate compared to the public by the Imperial Bank, and the co-operative movement for the *bonâ fide* use of its members is allowed the privilege of free remittances. Behind the question with regard to the scale of charges for telegraphic transfers and supply bills by Government appears to be the important question of interests of the Imperial Bank, on the one hand, and of all the banks, on the other hand, as against the public. With the same is mixed up the question of reducing the charges for the post office money order. These charges are very high on small remittances. On large remittances they are higher, and banks get the business, which the post office might get.

400. The ideal to reach is to eliminate remittance charges. According to the Central Areas Committee, " a nation-wide mobility of funds is most vital in this country ". The postal cheque system in Germany and Switzerland referred to by the Punjab Report, is the closest approximation to this ideal. In India the distances are, however, large and perhaps complete elimination may not be possible for long. A systematic attempt should, however, be made towards that end and all auxiliary measures, which would lead to that, must be supported.

The Bihar and Orissa Committee wanted discount on cheques payable through banks to be abolished. Some people prefer to leave the details to be considered by the banks. Remittance is a source of revenue to banks, however small it may be, and, unless by competition between various banks, facilities for free transfer are introduced, there is no hope of an initiative from the banks themselves. In order to set an example to the banks of what they should do in their turn to their own clients, the Reserve Bank should initiate a free transfer suggested by me in paragraph 305. The Reserve Bank should further, immediately after it starts operation, select a number of stations, between which it would give free transfer of funds to member banks through its agent. Real inconvenience and loss in connection with these operations would not arise for it for many places.

With regard to the post office money order system, complaints have been made that the charges are high, and they undoubtedly are for remittances for Rs. 5 and under, the minimum charge being 2 annas. On a remittance of Rs. 2, this will work out at $6\frac{1}{4}$ per cent., which should be considered unconscionable, having regard to the class of poor remitters, on whom it would fall. Most of the Provincial Committees have recommended that these charges should be reduced. I regard that, however plausible the principle of the cost of service may appear, in a department, which

is rendering multiple service, it is most difficult to ascertain with any accuracy the cost for one item. The Telegraph Department has eaten into the Postal Department's surplus for a long time but the question of remittance, which affects the mobility of capital inside the country, is much too important to be lost in the maze of departmental difficulties raised by departmental pundits. I would, therefore, suggest the examination of the question in the light of remittance charges in other countries by an official and a non-official sitting together at a very early date.

It is acknowledged that the heavy remittance charges, lead to the pernicious practice of cutting up notes, a practice, that should be discouraged, when remittance charges come to be reduced. I should like to draw the attention to the conflict of interests between two sections of post office, *viz.*, the money order section and the savings bank section. All progress, in respect of the savings banks, making them genuine banks for the poor people, barring, of course, the function of lending out, have been turned down, because they would affect the money order business of the post office. A transfer from one account into another by means of a cheque, when the accounts are at different post offices, was not supported. Nor does the issue of letters of credit asked for by three Committees find any support on the same ground It was agreed to by all that money orders should be credited or debited to accounts in the post offices. In respect of letters of credit it was thought that they would lead to frauds and there would be difficulties of identification. These difficulties exist, when letters of credit are issued for higher classes by their bankers and no one has yet suggested that the system should be discontinued, but, when the benefit of a similar system is asked for in respect of poorer classes, these difficulties loom large. The Central Areas Committee wanted that " the post office banks are utilised to the utmost extent for remittance work ". The Punjab Committee was of opinion that " if the postal cheque system in force in Germany and Switzerland could be introduced, it would be of great value to trade and commerce ".*

401. If Government cannot set a better example than this, why hould banks, which are frankly business concerns, give up making charges in respect of internal remittance to their customers, who have accounts at more than one branch. As I have already indicated, where composite service is being done, the suggestion that the costs would increase is one which should be accepted with great caution. This question to my mind is a very suitable illustration of the phenomenon in the economic world, where some immediate advantage has to be given up in order to gain a bigger and more permanent advantage, and yet the red tape and official mentality always intervene. Reduction or abolition in remittance charges initiated by Government at the bottom in the savings bank and at the top in the Reserve Bank, would by example and precept

* *See* also Central Provinces Report, para. 1377; United Provinces Report, para. 523; Burma Report, para. 389.

lead to their reduction or elimination all round, starting with the actual customers of the bank and between places where banks have branches. This in its turn would render mobile, money, which at present cannot freely move, and it would be a great source of strength to the economic life of the country, which would react favourably both on Government and on banks.

In the case of banks, a discount has to be paid between two places on a cheque. The cheque can, therefore, serve the same purpose as the letter of credit, but with regard to the post office savings bank, a restrictive conclusion has been reached by my colleagues that " we are not in favour of the postal department developing any new banking business. We have recommended that withdrawal of savings banks deposits by cheques be permitted and that savings bank depositors should be allowed to have money orders debited or credited to their accounts ". I have indicated the balance of advantage in securing the use of cheques, larger mobility for capital inducing larger savings, and in giving greater volume of business, if the post office savings bank could really be to the poor man what the joint stock and other banks are to the better classes. But I realise that I am up against the whole weight of official dogma, the vested interests of the post office itself in their money order income, and the vested interests of the banks, who do not desire post offices to develop current account business.

402. *Use of Vernaculars.*—There is a portion of the Indian population, who are not literate at all, and there is another, who, being literate, cannot read English. While the difficulties of the first section are considerable and can be only overcome with the spread of education, the obstacle in the way of the second group could be removed, if banks were to make arrangements at all their branches for recognising the use of the vernacular in the matter of *hundis*, cheques, and pass-books. The foreign " experts " laid great stress on the infinite variety of the several hundred vernaculars in the country as a ground for pessimism in the expansion of banking, but in many provinces, there are only one or two vernaculars in general use. In any case, it is more probable, that there will be persons knowing another vernacular but not knowing English. Indian banks have already, in their own interests, given this facility to their clients. If there is delay in establishing the Reserve Bank, it should be one of the terms imposed on the Imperial Bank by Government, that such facilities shall be given by them at their numerous branches. When the Reserve Bank is established, it should be obligatory on all its agents to recognise vernaculars.

403. *The Clearing House.*—The Reserve Bank Bill laid down that the management of clearing houses would be in the hands of this Bank. Existing conditions with regard to this are not satisfactory, as will be seen from the following:—

Question No. 7959.—(Mr. Manu Subedar) A complaint has been laid before us that the foreign banks are dead set against Indian banks being

admitted to the Clearing House. Is that within your experience?—(Mr. MacDonald) I have heard of such complaints.

Question No. 7960.—(Mr. Manu Subedar) What have you to say about it? You know that under the Canadian Bank Act, there is a Bankers' Association there, and there are similar associations in other countries, and the rule there is that only those banks that are registered in that country, can become members of that Association and no others?—(Mr. MacDonald) I know of that provision.

Question No. 7961.—(Mr. Manu Subedar) Is there any objection to India following this rule?—(Mr. MacDonald) At the present moment the Clearing House is constituted by original members, who form that Clearing House. It is their business entirely.

Question No. 7962.—(Mr. Manu Subedar) It has, at present, not been formed under any legal arrangement. If a law was enacted governing the regulation of banking in this country and if that law prescribed who shall be the members of the Clearing House, then would that not cover the point? Is there any inherent difficulty in India following such a practice?—(Mr. MacDonald) I do not think there will be any difficulty; but I am of the opinion that you cannot prohibit the members of the present Clearing House from meeting together.

Question No. 7963.—(Mr. Manu Subedar) Nobody could object to their meeting outside the Banking Association?—(Mr. MacDonald) Yes. (Oral evidence of Mr. K. M. MacDonald, Managing Governor of the Imperial Bank.)

The establishment of clearing houses in the provinces and of giving facilities to indigenous bankers, was urged by Sir Basil Blackett in the following words:—

"It would certainly be desirable if more facilities could be given for clearing the cheques of private firms up-country, and the question might well be considered, whether in up-country markets where indigenous banks are of greater importance, the privileges of clearing houses might not be extended to registered private banks of suitable status as well as to joint-stock banks."*

In principle, clearing arrangement avoids the movement of specie and notes from one bank to another. It, therefore, reduces the amount of cash required in use and it saves the cost of the transmission of such cost by eliminating the risks attached thereto. It also saves time to all parties concerned. It would be a valuable means of linking up banking institutions with the Reserve Bank. It is hoped, that, after the Reserve Bank is established, the development of clearing houses in India will proceed on sound lines, as in other countries, but the exclusion of foreign institutions from such clearing houses is indicated as a primary protection. If they are included for any reason, it should be, not as a normal practice, but as an exception, and such practice should not be allowed to be crystallised as a definite and final model for all times.

404. *Nidhis.*—I concur with the Madras Committee's report in this matter. I regard the Nidhis as a very favourable nucleus for the formation of banks. Four of them, according to the Madras report, have already turned themselves into regular banks. Many more might, if the present laxity of the law is avoided, turn in the same direction. After having induced as many of them to

* Delhi University address, 1925.

do banking business as possible, if a number are left out, which must have the privilege of periodic contribution to shares and a partial or complete withdrawal of share capital, a special law may be set up, but the special law should not be a Madras Act and for Nidhis alone. There should be an all-India act on the lines of the Industrial and Provident Societies Act of the United Kingdom. This act should be applicable to all-India in the main, but the rules obtaining in each province might be subject to the approval of the provincial Governments. It is high time that there was a law on this, as all kinds of institutions on a small scale are being worked at present unknown to authorities. Contributions are being levied from many ignorant and poor members of the public for institutions, which have no legal basis, and in which the minimum protection to the clientele is not provided for by law. The experience of other countries in this direction is available. If there has not been a definite demand for this legislation, it is because no particular powerful interest was directly affected. Institutions, which assist saving in any form, are of great importance for the country and they should operate in India under laws based on the experience of other countries in order to prevent dishonest manipulations by individuals to their own advantage and in order to secure some publicity, some audit and some regulation on their operations.

405. *The Chetties.*—The system of banking, which has been developed by the Chetties, both in Madras and in Burma, is one, which has survived long without any serious scandals. It has also shown a capacity to expand and a capacity to adjust to new conditions. They have both current and deposit accounts, regular pass-books and some attempt is now being made to secure linking up with the central banking institutions. The operations of the Chettinad Bank are operations, which would have a place of honour in the banking history of this country. The Chettinad Bank itself with a capital of three crores of rupees is the result of the amalgamation of private Chetty bankers and its numerous agencies have now turned into branches. With regard to Burma, Chetties have put forward various small grievances, which may be remedied, and everything should be done to encourage them in their operations, particularly as in Burma, their methods are not considered either as usurious or oppressive.

406. *The Loan Offices in Bengal.*—These are a peculiar, and in several ways, a remarkable development. It is true that some of them offer very high inducement for deposit and they also recoup themselves by very high rates, which they charge for loans. They have also the undesirable feature of lending out on their share capital and many of them are too small in their total operations. The Bengal Committee's recommendations with regard to them are generally sound. I endorse them. I would, however, go further in one direction. Where the loan office is working satisfactorily, its accounts are audited and it has built up the reserve fund as indicated by the Bengal Committee's recommendations,

and there is nothing against it except that it is charging high rates, it is of importance to make more funds available to it. Increased funds alone can bring down rates. Such increase of funds can only take place, if and when they produce securities acceptable to the institution, which give such funds. If the loan offices of Bengal had an apex bank taking deposits from the public at cheap rate, their purposes would be served. It is, however, not necessary for an apex bank to be there, if the branch of the Reserve bank, which would be in Calcutta, is to have a special officer to look into the affairs of the loan offices and to advance to them against securities approved by the Reserve Bank and against the margin fixed by them, funds, which they can use in their operations. Such facilities may tend to bring rates down. Such increase of resources may not be considerable in volume to start with, but will serve the purpose of eliminating the keeping of much cash, and it will strengthen their position generally. This recommendation is on the basis that it is better to pick up in the existing institutions, whatever is good and to use them as a nucleus for proper banking in course of time than to expect brand new institutions to be set up. The starting of new banks is beset with many difficulties, but the loan offices are there. There are 782 of them and though it is said that some of them have developed weakness and have frozen their resources and are unable to meet the withdrawal of deposits, others are in a sound condition. If the Reserve Bank were to help even two dozen of them and to guide them along the path, when in due course they would become proper banks, a great service would have been done to Bengal, where the prospects of the growth of indigenous joint stock banks have been considerably darkened by reason of the failure of the Bengal National Bank. The skill, which some of the staff of the loan offices have developed, and the extensive local knowledge, which they have, ought not to be lost. They are the local banks of Bengal on a small scale and at present not answering to model conditions. The capital engaged in them is in Bengal, the direction is from Bengal, and it would be a very great pity, if they are not strengthened by the sort of link, which I am suggesting with the Reserve Bank, and given a chance to grow into proper banking institutions.*

407. *Insurance.*†—The question of insurance came before the Committee in connection with the insurance of goods placed in licensed warehouses. I recommend, that it should be an obligatory rule that all insurance of goods in warehouses holding a license from the Licensing Board should be with Indian insurance companies. This is absolutely justified, if Government advance funds for these warehouses and spend the money for a Licensing Board, and for an economic survey and provide marketing facilities, and if Government ask banks receiving assistance from

* The same obligation should be put on the Imperial Bank, if there is likely to be delay in establishing the Reserve Bank.

† For other provisions in connection with insurance, see paragraphs 352 and 353.

them to accept the warrants from these warehouses. The Reserve Bank is not only to be permitted by statute but actively encouraged to make advances against warehouse receipts. Surely after this, Government could provide that goods in warehouses shall be insured with an approved Indian insurance company. There are people, who see discrimination in this, but it is not so. It is a form of encouragement to Indian effort by the transfer of Indian patronage to Indian concerns. Aided institutions are always required to do various things. Institutions, which are under regulation, are to be called upon to conform to regulations and have their freedom to act correspondingly restricted. The reservation asked for is reasonable and is recommended.

It is essential to provide this, because insurance in the last analysis is nothing but money saved in order to meet an emergency. Instead of a party saving it by himself and meeting the emergency by himself, the savings of many are accumulated in order to meet the emergency of any of them. An intermediary organization is created to attend to this business and that is called the insurance company, but in effect it is merely a disposal of savings and from this point of view, I consider, it essential that Indian savings should not pass into foreign hands.

The urgency of such provision would be evident on an examination of the following figures:—

	No. of Insurance Companies.		Premium Income.	
	Indian.	Foreign.	Indian.	Foreign.
			Rs.	Rs.
General (Fire, Marine, etc.) . . .	16	135	41,00,000	2,13,00,000
Life	66	36	3,35,00,000	2,90,00,000

408. *Bankers' Association.*—It has been suggested that a common association of all banks and bankers in this country would lead to better acquaintance between different classes of bankers and the discussion of subjects of common interest. It would also, it is hoped, lead to improvement in standards and the imposition of better practices by disciplinary measures against any member found doing anything, which would reflect on the standing and reputation of the whole class. The foreign "experts" desired the establishment of three different associations, such as the Foreign Banks Association, the Indian Joint Stock Banks Association, and the Indigenous Bankers Association, but the Committee felt that a single Association and a common platform would lead to more good.

While recommending that steps should be taken for the establishment of such an Association, I would deprecate swamping of Indian institutions by foreign institutions inside it in any manner. I would also indicate that an Assccíaton of banks and bankers cannot be a regulative authority. Nor can it be entrusted with the function of expanding banking, either in the case of joint stock banks, or private bankers. Associations of banks, like every other Association, when they are powerful, seek the restriction of

numbers. This danger is not real to India in the present situation, but the suggestion, that such an association would take the place, either of banking councils or banking authority, put forward by several Provincial Committees cannot be accepted. The growth of such an Association and its activities will, therefore, have to be watched.

409. *Banking Education.*—In the matter of banking education, the phenomenon, which strikes one, is the absence of any special education amongst those, who are holding high positions in banks working at present in India including the foreign banks. High officials in the banks are either men, who had nothing more than simple, normal high school education, or who had a sound general education. In western countries also the utility of specialised education as a prerequisite has not been established.

Education, however, helps those aspiring young men, who have ambition to get into higher banking after having got employment in a bank, or in anticipation thereof. If they knew something of the theory of banking, it would enable them better to understand the process and the directions of their superiors. Facilities should, therefore, be created for those, who intend to go into the banking line and for those, who have already entered the line and who wish in their spare time to improve their knowledge.

410. The absence of such facilities in India in the past has led to a vogue amongst young men seeking a career to take examinations of alien institutions like the London Chamber of Commerce, the Institute of Secretaries, the Bankers Institute, London, etc. The craze for a certificate or a degree of a foreign institution without leaving this country, has gone very far in many places and is causing a considerable drain of effort and of resources on the part of young people and their guardians, who are actuated with the best intentions, but who are not fully aware of the cumulative effect of their action.

Where there is a demand, the supply is already created by commercial institutes of all kinds preparing boys for these foreign examinations. Better organization in India and a sense of national self-respect has now created commercial courses at various universities, and the Indian Institute of Bankers examination as well as the examination of the Indian Chamber of Commerce. Government, also in Bombay, have instituted examinations for commercial certificate. It is possible that there is much duplication and waste. Consolidation is therefore needed at home, but what is further needed, is the elimination of the examinations of these foreign institutions, which make a serious call on the mind, as well as the purse of a good many young men. I would recommend the universities and the Chambers of Commerce as well as the Indian Institute of Bankers, to put their heads together to consolidate, where there is duplication in the local examinations, and to discourage their staff from going in for foreign examinations. After all, the lead in this matter lies in the hands of the employer, as

really all the effort of the young men is to lead up to a stage, where the employer is pleased with their qualifications or with their work. So long as the employer happens to be a foreigner, so long as the largest number of employments happen to be controlled by foreigners in this country in the field of banking, whatever the Indian public opinion may have to say, the position cannot be expected to be improved. The foreign examinations with foreign standards are not merely stale and secondhand. They involve a homage to alien standard, which is not necessary, when suitable institutions are set up in this country already. They involve a humiliation, which could not be helpful in eliciting good work out of the employee.

411. I am opposed to the grant of scholarship by Government to men, who go out of India, for what is called " higher studies ", in banking abroad. In explaining the ground, why I am opposing this, I wish to state that the amount of Indian money spent in sending out people abroad for studies in various directions is very large and is determined at present by the individual whim and caprice, instead of in the best interest of the community. Nor are the best men sought out from the point of view of the nation. Collectively, the amount spent is so great, that it ought to be possible by curtailing that amount, to set up institutions in this country equally good, institutions, which would give the benefit to perhaps twenty or thirty times as many men as are catered for at present on the expensive programme of foreign studies abroad.

It is desirable to break down the idea that better and higher studies are to be had in a foreign country. It is further desirable that public funds, which may be wanted for many other useful purposes, should not be wasted in sending a stray individual outside, particularly if there is no guarantee, that on his return this individual will be in a position to utilise the knowledge gained by him to his own advantage as well as to the advantage of the community. The recommendation that Government and banks should institute scholarships can only apply to Indian banks, as, apart from the foreign banks being unapproachable by Indian opinion and, therefore, indifferent to its dictates, they have no need of sending out an Indian all the way from here and getting him prepared, when they can pick up one of their own kind from abroad. With regard to Indian joint stock banks, if their assistants go abroad, even if they do not work there, there are certain advantages of foreign travel, which expand the mind and make them much more capable of realising their duties than they would otherwise be. But, beyond that, all expenditure must be justified. They are not likely to spend it, unless the directors saw some distinct gain to the bank, and, as I am recommending in other parts of this Report several more desirable forms, in which Government should encourage Indian joint stock banks, I do not recommend that Government should spend any funds on sending out young men abroad to learn banking.

We have examined facilities at the Sydenham College of Commerce, Bombay, for theoretical training in banking, general economics, accounts, mercantile law, etc., which would prove of very great value to those boys, who have a chance of going in the service of a bank. The knowledge acquired by them in this manner, added to the practical training, would, in the case of some of them, if they had it in them, open the path for reaching the highest positions. The introduction of commerce degrees and the establishment of institutions for commercial training has been a live topic at the centres of several universities and some progress has been made.* If middle class boys must have a degree and must spend four years at a college, there is not the slightest doubt that, those of them, who expect to be absorbed in general employment not merely in banks, but in joint stock companies, would be better advised to have a commercial degree than an ordinary arts or science degree, but too great a stress must not be laid on what a college can impart. A banker may not emerge from a college like a doctor or an engineer. There will be people, who would doubt whether even a college for professional training could, or, as a matter of fact does, give all that would be called for in practical life. Willingness to serve well is assisted by the ability to understand one's function, when a man possesses a sound working knowledge about a bank and its relation with its clients. The superior staff, whether in a bank or elsewhere, emerges out of those, who have the willingness to serve, who have not merely the ambition, but the readiness to do hard work, to gain the confidence of the superiors and to keep themselves at all times fully qualified for selection to a higher post, when opportunity occurs. Emphasis is needed, because, preparation in a college, while it may be helpful, is not indispensable. Speaking generally neither in India nor anywhere else have men, trained in the field of banking in a college, risen to the top, or risen quicker than others.

412. As already indicated, the foreign banker, who looms large on the horizon in India, can in very few cases claim any special education. It is reliability, for which the superiors in a bank look, when they engage young recruits. It would appear that the Board of the Imperial Bank found it difficult to secure from several thousand applications a sufficient number, who could be trained up to take charge of branches as fast as they could be created!† The difficulty is partly social and partly economic. In other countries young men enter banks on the personal recommendation of parties known to the management or the bank directorate. The reliability part is satisfied both from the antecedents of the person as well as from the social standing, in which the family of the candidate is held. With the growth of Indian banks and of Indian directors, so many men of sound education would come on the scene, that the problem would be of selecting

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* *Vide* statement on page 406.

† *Vide* footnote on page 123. Speech of the Chairman of the Imperial Bank of India, Bengal Circle, in August 1921.

Statement of candidates who offered themselves for the B.A., B.Sc., and B.Com. degrees.

Name of University.	Class.	1916.	1917.	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1927.	1928.	1929.	1930.
1. Bombay . . .	B.A. .	780	1,201	1,393	1,825	1,470	1,268	1,205	1,138	1,204	1,437	1,781	1,515	1,475	1,523	1,494
	B.Sc. .	55	77	75	102	121	121	180	206	316	422	560	711	772	870	933
	B.Com. .	50	75	91	106	83	55	52	57	77	96	129	133	129	99	153
2. Calcutta . . .	B.A	...	...	...		...	...	...	2,809	2,854	2,624	2,978	3,117	3,430	3,659	3,511
	B.Sc. .	...	...	...	...	...	...	.	668	816	969	1,188	1,240	1,244	1,140	956
	B.Com. .	...	...	...		...	...	...	26	103	108	134	111	105	100	129
3. Allahabad . . .	B.A. .	...	...	...	...		...		...	...	628	698	756	240	299	340
	B.Sc. .	...	...	...	...	...	...	...	...	...	250	273	242	119	134	148
	B.Com.	...	...	...		...	...	...	...	...	15	50	83	8	18	37
4. Punjab . . .	B.A.	...	...	...	...	...	...	...	...	...	...	...	...	...	2,015	2,192
	B.Sc. .	...	...	...	.		...	...	...	...	...	...	...	...	169	139
	B.Com. .	...	...	...	...	...	...	...	...	...	...	...	...		...	35
5. Lucknow . . .	B.A. .	.	...		...	...	...	117	99	122	125	142	159	171	162	161
	B.Sc.	...	...	...	...	...	.	40	56	67	64	51	82	76	92	94
	B.Com.	...	...	...	...		...	13	27	42	52	32	39	36	26	34
6. Agra . . .	B.A.	...	...	...	...	...	.	...	...	...	...	...	...	686	842	935
	B.Sc. .	...	...	...	...	...	...		...	...	...	...	...	156	180	238
	B.Com. .	...	...	.	...	...	...	...	...	.	...	...	...	81	71	83

from amongst them and of rejecting. The economic difficulty is partly from the fact that candidates for bank employment are already married and expect an initial salary to support their family in a certain standard. It is not always that banks can pay boys, who have never done any work before, and who are unused to even the routine of commercial business, an initial salary on this basis. That the initial salary given to a new English assistant in a bank is altogether beyond the Indian standard, has been noticed not merely from the point of view of Indian recruits. There is no cure for this situation, until Indian banks increase in number and fix reasonable standards, having regard to all these considerations. Every well-organized bank is anxious to have a proper staff and the process of elimination, selection and promotion would constantly be going on, by which men, who have shown themselves capable, are gradually taken to do more responsible work as opportunities occur. What is wanted in India is a few models at the top amongst the bank managers, who would by their example silently guide the aspirants. What is also required is the "esprit-de-corps" at the bottom amongst the staff, who would put loyalty to the institution, they are serving in the forefront, and would seek the fulfilment of their ambitions in the advancement of the concern. Whether it is true or not, that the biggest engineers have been thrown up from the workshops, it may be asserted with confidence that the biggest bank managers have grown in and with their banks.

CHAPTER XXII.

SUMMARY OF RECOMMENDATIONS.

The association of foreign " experts " in the enquiry was an unusual and unprecedented procedure.

The Committee did not receive full information and proper response from parties, to whom questionnaires were sent.

The problem before the Committee was two-fold, *viz.*, foreign control of banking resources, which was growing and menacing Indian institutions, and the orderly advance of Indian banking including the filling up of the gap in internal banking. It was impossible to treat this topic without making this distinction at every stage.

There is more than ordinary parallel between the problem, which the Mercantile Marine Committee had to examine and which our Committee had to examine.

It is impossible to deal with the problem on grounds of pure finance. Even if banking were regarded as a public utility service, regulation would be unavoidable.

A national policy is needed for building up Indian banking, not only for releasing this country from the dependence on foreign institutions, but for retaining profits and experience in India. Unless the atmosphere is improved, Indian enterprise in banking cannot prosper.

On considerations of pure finance many measures, which were taken by Government in this country, would have been condemned, but such considerations alone cannot determine policies, in which immediate good is sacrificed for ultimate good and private interests are subordinated to larger interests of the community.

In many places cultivation may be regarded as a mode of living for the agriculturist rather than as a business.

The question to ask is, whether the agriculturist has any surplus after paying land revenue and expenses of cultivation, including his livelihood on his meagre standard.

Such surplus is the basis of land value on the one hand, and of the credit of the cultivator on the other hand. Where the surplus is entirely absorbed in payment of interest charges, the motive for improvement and larger production is destroyed. The reduction of interest charges payable by the agriculturist becomes, for this reason, a matter of importance to the community. Delays in necessary economic reforms from objections raised by officials, landlords and other vested interests, should be avoided.

Financial help to the agriculturist in any shape or form could only bear fruit, when there is an active agricultural policy, the aim of which is to spread education, improve the general conditions and status of the actual cultivator, and relieve him from burdens or hardships by suitable changes in law and administration.

Changes in law should be invariably in favour of the actual cultivator of the land.

Restriction on transfer of land by the agriculturist reduces his credit. Everything must be done to strengthen the title to the land, which a man cultivates, so as to improve his sense of property and to give him motive for larger exertion and production, and improve his borrowing power.

The question of tenures should be examined by the Minister of Agriculture in each province forthwith and improvement effected, starting from the class, which has the smallest rights, *viz.*, the tenant-at-will.

It is desirable that all disabilities of tenants in respect of transfers should be done away with.

The figure of rural indebtedness in British India has been estimated by the Provincial Committees at Rs. 876 crores. The Provincial Committees themselves have expressed doubts as to the reliability of the results secured and the figure appears to be understated.

If ascertained, the figure would be useful not merely to show the amount engaged by moneylenders in this, but what additional amounts may be necessary to bring down the rate of interest.

It was not possible to say, from facts gathered, whether indebtedness was increasing or diminishing. There is reason to believe that the man, who actually cultivates, is in a worse position now than he was. The general deterioration in the condition of the agriculturist would also affect those, who are his bankers.

The burden on the cultivator is in respect of revenue, or rent where he has to pay it, and interest charges. Where the debt has been of long-standing, interest payment approximates to rent. The relative position of the various demands of the cultivator, which have to come out first from his produce, raises the general question of distribution.

All measures recommended by the Provincial Committees calculated to reduce or limit the enhancement of what is payable by the cultivator to the state, to the landlord and intermediary, and to the moneylender, should be closely examined.

Measures for the reduction of interest would not improve the condition of the cultivator, if he is exposed to enhancement in other directions.

Ejection for non-payment of rent, or under a decree by a moneylender, has the same economic consequences on the cultivator. Since ejectment involves economic distress and a change of status, measures must be taken to improve the lot of those, who are rendered landless.

The position of the Mahajan as universal financier in India for the agriculturists is brought out by the Provincial Committees.

Public opinion in India has been in favour of measures for making available for the agriculturist long-term accommodation at a reasonable rate and on a reasonable security.

The warning given by the Royal Commission on Agriculture against easy credit being a blessing to the rural population, should not be exaggerated, but should be interpreted as a necessary caution in measures, which may be devised.

The object of state policy should be to extract the cultivator from the morass of heavy interest rates, semi-slavery and helplessness, and lead him to a position of solvency and freedom from debt.

So long as the cultivator is left free to borrow from outside sources, the utterance of superlative caution against facile credit, even when the sources are organized at the top and work under carefully devised rules and periodical accounts and examination, causes confusion and is not helpful.

The idea that the cultivator would borrow much more at cheaper rates, than he is doing now, cannot be supported. Facility for borrowing and elasticity in methods could not be greater than those of the moneylender, where there is suitable security or certainty of recovery.

Heavy overload of interest is undermining the independence of many agriculturists and measures are necessary to stop this.

The number of agriculturists, who are free from debt, should be increased and as many of them should be put on the path towards such freedom as possible.

The supply of capital in agricultural districts is inadequate. Inadequacy is demonstrated by the rates, which are charged for loans. The Agricultural Loans and Land Improvements Acts, while indicating Government's recognition of the obligation towards the agriculturists and doing good to those, who come under their operation, are not calculated to cover the field, or obviate the need for new measures.

Credit requirements for short-period, as estimated by the various Committees, appear to be under-stated. Supplies both from Government and from co-operative movement, are a very small fraction compared to supplies of capital from the Mahajan. What is available from all the three sources, is also inadequate.

The co-operative movement can never replace the moneylender in general, and the agriculturist moneylender in particular. Steps should be taken to bring down money rates all along the line. This will affect all contracts, including those between the agriculturist moneylender and his client.

None of the existing agencies possess all the ingredients required for developing a successful system of long-term credit.

There is no special object in land mortgage credit being made available only through the co-operative movement.

Funds for mortgage credit should be raised by debentures, but it would not be easy for private enterprise to do so, unaided.

It is recommended that guarantee by Government should be given with regard to principal and interest, but the risk of loss to public funds would have to be reduced to a minimum. Therefore, the guarantee of principal and interest on debentures of small land mortgage banks by Government is not recommended.

Special land mortgage banks would be justified, if the turnover was sufficient to enable suitable staff being engaged, but there is no adequate reason, why the work could not be entrusted to co-operative central banks and to branches of commercial banks.

Guarantors are not likely to come forward, unless they have full confidence in the institution, through which land mortgage funds are lent out.

The funds raised by the credit of the state should be passed to the primary producer under definite rules and through the intermediation of large and reliable institutions.

In order to work the scheme on a sufficiently large scale and to safeguard the interests of Government, who guarantee debentures, a land mortgage department would have to be instituted in connection with the Reserve Bank to do the following:—

(1) To appraise the requirements and to put forward at a time suitable land-mortgage bonds, guaranteed by Government as to interest and principal.

(2) To make arrangements at all intermediate periods for the sale of these bonds to the public and to provide for purchase by the investor on instalments on a suitable basis.

(3) To distribute the amounts raised equitably between the various provinces, having regard to their needs and also to the extent, to which guarantors are forthcoming in each province.

(4) To administer a sinking fund and other charges and to distribute the interest on land mortgage bonds.

(5) To deal with all agents, whether co-operative banks or commercial banks, through whom the scheme is to work.

(6) To make fundamental rules for the administration of the scheme and to see that these rules are carried out by the agents.

The Reserve Bank would also be able to place land mortgage debentures guaranteed by Government, on foreign markets.

If a land mortgage department is created with the Reserve Bank, there is no need for an apex land mortgage bank in each province.

Valuation of land would have to be secured by special officers and, according to conditions, a margin of 40 to 60 per cent. would be kept.

The Reserve Bank should cover itself for the expenses, and its rules should allow the intermediate bank also to do so.

As funds would not be unlimited, the benefit should go in the first instance to cultivators, whose old debts could be substantially reduced by cash repayment, and who would have the capacity to repay the new loans.

Collection of equated instalments with the land revenue should be facilitated.

It is not desirable, that funds raised by Government guarantee should be lent out by land mortgage, or other banks, directly to the borrower. The co-operation of local Mahajans should be secured by creating a class of guarantors.

The aim should be not to supplant the local moneylender, but to use him as a basis for raising the credit structure, and to secure for the smooth working of the scheme his local knowledge and co-operation.

The guarantor would be called upon t put a fixed deposit, which would be returnable to him only after the loans guaranteed by him have been recovered. The guarantor will approve the party and the amount of loan. The transaction would be direct between the bank and the borrower, but the guarantor would undertake to indemnify the bank against any loss in connection with the loan.

The intermediate bank would lend out, in the first instance, five times as much as the guarantor's deposits. The guarantor should make from 1 to $1\frac{1}{2}$ per cent. on each loan, which would give him thus on his own money a return of from 11 to 13 per cent.

As the legal position would be considerably cleared, and the cost and delay in connection with the process of recovery would be very much reduced, he may be reconciled to some reduction on what he is making now, provided his status in the district and amongst his fellowmen is thus maintained. The aim should be to harness him in the service of the community.

It is a composite scheme aiming to secure cheaper and larger credit to the actual cultivator, enabling conversion of old debts to a lower rate and allowing of the risk being reduced to a minimum through the guarantee of the local moneylenders.

The benefit of the scheme can only accrue, where the actual cultivator has a clear right and title in the land.

Restrictions on transfer of land purporting to be in the interests of the agriculturist, are objectionable in principle, as they obstruct the free mobility of capital assets, which in its turn prevents the free mobility of money capital.

The position in Bengal with reference to parties between the state and the actual cultivator, and with reference to intermediate capitalisation, should be examined.

Besides the ascertained value of land behind the loan given, there will be the assurance of the guarantor and the cash margin

deposited by him. Such conditions alone will secure money being raised on the cheapest basis, *i.e.*, on the highest credit of the state. On this basis alone can the problem of rural indebtedness be tackled on a large scale.

Existing land mortgage banks are inadequate and unsatisfactory.

Increase in the volume of credit must be large enough to make an impression on prevailing rates of interest. Economic action in the district on this basis would react on all money contracts, if it is undertaken in earnest.

There is need for orderly marketing. The financial weakness of the cultivator compels him often to sell at a disadvantage, either by prior arrangements, or by having the sale through certain parties, who may be his creditors, or at a time when everybody else is selling.

The penetration of wholesale firms in the interior supported by cash credits from banks, has weakened the local trader and has harmed the cultivator. Forces of competition among buyers are not as strong as they should be at many places.

The benefit of every improvement by larger production may be lost to the agriculturist through his inability to secure the full price. The need in India is to organize markets with reference to the convenience of sellers, who are many, and who are in a weak position.

The establishment of markets in the interior would require administrative machinery for preliminary survey and subsequent regulation.

There will be no justification for interfering with the field of marketing as it is at present, or for incurring expenditure from public funds, unless the aim of Government in effecting reforms was clearly defined.

An economic survey, marketing officers, licensing boards, licensed warehouses, financial aid to such worehouses, and arrangements for grading and for pooling, collectively constitute a programme too ambitious and costly for this country.

Standardisation of weights and measures should be undertaken. It is desirable to effect only one change on the all-India basis by careful previous preparation, dissemination of the necessary information, and punishment to delinquents thereafter.

The cultivator should be assisted in all his difficulties, such as, receiving better price for better material.

The prospects of the success of the co-operative sales societies are not bright. Even if reliable and competent managers were available, the power of the co-operative sales societies to withstand the agents of the large buying firms assisted by cash credit from the centre, will not be greater than that of the small trader, who has receded from the attack.

Warehouses in the interior are necessary and would be helpful, even if they assisted the local trader, if not the primary producer, but they can only come in existence, where the commodity can bear all charges in connection with them.

The whole question of the working of warehouses, which must cover the costs and secure actual profit, would require to be experimented upon. Advancing funds by the state cannot be justified, except in an experimental and pioneer stage.

It is not the business of railways to engage public funds in setting up warehouses.

Expenditure on grading by officers of the licensing board would not be justified, except where it is an experiment to establish a model.

Effective pooling would enormously increase the power of the seller, but the establishment of the pool in India on the voluntary basis is not expected. The initiative would have to come from the top. It would be an experiment in socialism, the success of which will depend on many factors.

If a pool were concerned, not merely with selling, but also the quantity produced and the area engaged in such production, jute, which is India's monopoly, offers the very best field for the experiment.

Large sums are being spent by the state for advancement, and regulation of, the co-operative movement.

Only a small fringe of the rural population have come within the scope of the co-operative movement, which cannot be expected, within the next ten years, to embrace even half the rural population. Other measures for the benefit of those, who are outside the movement, are, therefore, imperative.

Acceptance of, and adherence to, the principle of unlimited liability by the cultivators, generally, must weaken as education spreads.

Public opinion amongst the members of the co-operative movement has not proved strong enough to enforce the principle of corporate responsibility and prompt payment, even of the interest on the loans outstanding.

The co-operative movement would appear to be supplementing the finance provided to the rural districts by the moneylender, rather than supplanting him.

Under existing rules, all requirements of members are not met, leaving, as in the Punjab, 40 to 60 per cent. of them in debt to the moneylender.

Periodical valuations of the assets of the primary societies, provided in the rules, does not appear to be done.

If confidence of those, from whom finance is being received, is weakened, the progress of the movement would be slow.

Direct assistance by Government to a small extent and indirect support in the concessions to the movement, have created the feeling,

that the moral authority of Government is behind the deposits of the co-operative banks.

The amount of finance in the hands of the co-operative banks at present seems to be more than adequate for their needs, but, for the next stage of progress, the maintenance of public confidence and of the confidence of the Imperial Bank and depositors is important.

The movement is fundamentally a means of securing from the centre of the money market and from those, who have savings, cheap finance and making it available for the rural districts.

Compulsory purchase of shares and compulsory deposits from borrowing members do not represent real thrift.

Facilities for fixed deposits and for current deposits to members and non-members are not uniform and are not always available at all co-operative institutions. To this extent, they do not fulfil the requirements of the public as a nucleus of thrift machinery.

The co-operative movement has not supplanted the moneylender. Debts to the Mahajan are in some cases, greater than the debts to the society.

Indian joint stock banks are jealous of the concessions enjoyed by the co-oprative banks. Exchange banks take call money, but do not always give call money to the co-operative banks.

The Imperial Bank's decision to curtail facilities given to the co-operative movement, when there has been neither loss nor default is not justified, because the co-operative banks do not use the cash credit facilities given, but merely derive support from them in case of need.

Co-operative paper, having been recognised as suitable for the Reserve Bank, the withholding on the part of the Imperial Bank of such facilities against the *pro note* of A class societies endorsed by the Provincial Bank is unduly restrictive.

Absence of such facilities and unduly conservative rules with regard to liquidity, have compelled co-operative banks to take money from the public by way of deposits and put large amounts in Government securities, instead of making them available to agriculture. The rules for liquidity requirements and for investments need revision.

It would be desirable to establish a separate department of the Reserve Bank to deal with the co-operative movement, to keep the necessary information and to meet their requirements. There will be an official in such department to watch the movement and point out its weakness from the economic and strictly banking point of view.

For the protection of the weak against the strong and to safeguard the interests of the agriculturist, who is in debt, a simple Rural Insolvency Act should be enacted in provinces and better known.

Better utilisation of the Usurious Loans Act and an enactment similar to the Punjab Regulation of Accounts Act in other provinces are recommended.

Registration of Mahajans and Sowkars in every district should be optional, but inducement for registration should be given by certain concessions.

It is not possible to hope for the emergence of joint stock enterprise by the transformation of private bankers, unless the atmosphere for joint stock banking is considerably improved.

No measures are recommended for the small moneylender, who would adjust himself to the new situation, or profit from the improvement of general credit conditions in the districts.

Compulsory registration is recommended for the moneylender of the Pathan type.

The private banker is fighting a losing battle against new conditions, which he cannot withstand.

The classification of commercial banking, industrial banking, and banking for the financing of foreign trade, is faulty.

The banking future of India will depend largely on the emergence of local joint stock banks of the smaller size.

The use of Government funds has been a source of strength to certain Indian joint stock banks, but in British India help from such funds has been confined to the Imperial Bank alone.

The cash position of the Indian joint stock banks, stated as a whole, cannot be considered unsound.

Banking facilities in India must be considered inadequate in view of the fact, that there are 659 branches in India against 13,100 in the United Kingdom, one for every 440,000 persons in India as against one for every 3,500 persons in the United Kingdom.

The causes preventing the growth of banks in India are to be found in smaller use of cheques and less acquaintance with credit instruments generally, hoarding, and direct deposits by parties with firms, and companies. There is also the deterrent effect of failures, but foreign critics are prone to exaggerate the instability of Indian banking and the danger to depositors in Indian banks. Unfamiliarity with joint stock organisation is also an obstacle. The attitude of Government and public authorities has not always been sympathetic and helpful towards Indian banks. The growth of foreign institutions in the country has circumscribed the growth for Indian banks, and their competition has been growing. The limited amount of trade in Indian hands and the setback received by Indian traders of late, limits the clientele, which Indian banks can reach. Indian firms and persons do not always give preference to Indian institutions and sometimes they are precluded from doing so, when they would like to patronise Indian joint stock banks.

There is no dearth of capital in India for the next stage of advance, and if measures for the encouragement of joint stock bank-

ing were adopted, it will not be unreasonable to expect, that at least a dozen new banks on a large scale would come into existence.

The co-operation of local money and local publicmen could be secured, if smaller local banks are started with the guidance of the larger banks. Banking growth in other countries in the world came from the establishment of small local institutions and could be more readily secured on those lines in India, than merely by the encouragement of the larger joint stock banks.

The standard set by the Imperial Bank with regard to the costs of branch banking does not give a wholesome model for expansion of banking in India. There are places in India, where a branch of a joint stock bank is wanted, but there is no machinery at present for informing joint stock banks, or inducing them to open such branches.

The problem of liquidity would be assisted by the larger use of bills and the cash position of the banks, generally, would be materially assisted by the establishment of the Reserve Bank, which would help them with cash in case of need, not merely on Government securities, but on every form of recognised banking security.

The maxim, that banks taking short-term deposits, should not lend out at all, however sound the security may be, for more than six months or one year, is a counsel of perfection, the literal application of which would restrict banking service in India. Vigilance by an individual banker is necessary, but the banking system as a whole cannot recall all advances made to trade and industry in any country. It is the business of the banks to make their advances on sound lines and in a properly organised banking system, banks can expect to be helped by the Reserve Bank against any abnormal, sudden, or emergent demand for cash.

The need for excessive cash by individual banks adds to the cost of banking, which the community have to pay.

Indian joint stock banks enjoy in India no privilege of any kind. A definite policy should be enunciated by the state declaring it to be an important purpose and public object to encourage the growth of Indian joint stock banks. The precedent for such policy exists in the encouragement of the co-operative movement by the state and the application of such policy in the case of Indian joint stock banks is not less important.

Interference with joint stock banking and the imposition of additional regulations would not be justified without definite encouragement. The encouragement should take the form of same privileges, which the co-operative banks enjoy at present, same facilities for opening branches, as the Imperial Bank, rediscount facilities with the Reserve Bank and a special rediscount rate, whenever the Reserve Bank finds it convenient, facilities for advance against *pro notes* and suitable collateral from the Reserve Bank. There should further be encouragement to amalgamation of smaller banks by the exemption of super-tax for the first five years of the existence of the new company.

The field of interior banking outside the port limits should be reserved to Indian joint stock banks. Every Indian-born person and every company registered in India should be prohibited from placing any moneys on deposit, except with an Indian joint stock bank.

The outlook for Indian joint stock banks should be improved. Expansion could only come after existing banks are enabled to earn larger profits. The growth of Indian joint stock banking, after the concessions recommended are given, may come from the private bankers, individually or in combination, registering themselves, from the amalgamation and strengthening of small banks, 'nidhis' and loan offices. Expansion may also come by the opening of more branches by the existing banks through the use of interest-free funds.

The question of the co-operative central banks engaging in general banking business, however restricted it may be, deserves a close examination. The prohibition to co-operative institutions of dealing in hundis and general remittance is a retrograde step. Where the staff is suitable, in each province, in some districts, the central banks should be allowed and encouraged to engage as an experiment in ordinary banking business, within definite instructoins and limits.

The designation 'exchange banks' derived from 'eastern exchange banks' in the London money market, is misleading in India, because these banks do every other class of business. The proper classification would be foreign banks in contrast with Indian banks.

The menace to banking progress in India of the foreign banks, who have consolidated their position, cannot be realised without their historical position being examined.

The foreign banks started originally with moderate capital. Several of them disappeared from the field, after they initiated business in India.

Existing statistical information published about the 'exchange' banks is meagre and misleading.

The increase in the number of 'exchange' banks in recent years and in their operations in the interior, denotes the profitableness of the field of Indian banking for them.

In recent years greater links with foreign money centres have been established, two of the 'Big Five' in London having acquired interests in India. Non-British foreign interests have also consolidated their position.

The share of Indians in India's foreign trade is small and is estimated at 15 per cent. by the Indian Chamber of Commerce, Calcutta. This estimate is not modified in any way by the percentage figure put forward by the 'exchange' banks. Their object in lumping the figures for all banks and in expressing them in percentage, could not be in the interests of India.

The progress of foreign banking is parallel with the progress of foreign trade in foreign hands, and the two problems would have to be tackled economically at the same time, in order to retain in India both banking profits and trading profits.

The foreign trade of India is also the foreign trade of other countries, as imports of India become exports there, and exports there become imports to India. There is no justification, therefore, for the alleged obligation to finance it from Indian resources alone.

The legitimate financing of foreign trade is dealing in bills from the moment, when shipping documents emanate at an Indian port, in the case of exports, and up to the moment, when the goods on arrival here are cleared, in the case of imports.

Penetration inland to collect the produce of the country, or to dispose of imported goods, is the invasion of internal trade, and all banking in connection therewith is internal banking, in which the entry of foreign banks cannot but be harmful to India.

The credit cycle in India cannot be established, because of the wedge, which the foreigners have put in, both in trade and in banking.

The statements of their working in India supplied by the foreign banks, were unsatisfactory owing to lack of detail and the indeterminate character of the headings, and the fact that the figures were for a single date, probably specially prepared for the Banking Committee.

No conclusion could be drawn on the strength of such imperfect statistics as to, whether normally any funds are imported by the 'exchange' banks from London, and whether cheap funds collected in India are not used abroad.

Since it was not known in what sense the word 'Indian' was used in the statements supplied, no useful inference could be drawn, but, on their own showing, the prohibition of deposits by Indians in foreign banks would only deprive the non-British foreign banks of a negligible part of their working capital and the British foreign banks of something near five per cent.

Opposition by foreign banks to the proposals would, therefore, be the result of jealousy of Indian institutions, whom such a measure is expected to assist, and not any serious interference with their own business.

The cash held by foreign banks in this country against their liabilities has been so much reduced in recent years, as to raise the question, whether these banks do not constitute an element of weakness to the Indian money market.

The idea, that foreign banks in India are financing foreign trade only, is a fiction. The largest bulk of their operations is in the finance of internal trade.

Statements of the operations of the branches of foreign banks in the interior, which were asked for by me, were not supplied.

From the statement of the Chairman of the Mercantile Bank of India, it would appear that the more substantial profits of the foreign banks arose from local business.

'Exchange' banks had a great share in shaping opinion on matters affecting trade and finance, both here and in London. The expression of such opinion was through British Chambers of Commerce, which were generally hostile to, and intolerant of, Indian efforts and Indian aspirations. Essential financial reforms were obstructed by them. They acted selfishly and took every advantage of the political and economic situation in this country and the embarrassment of Government, to secure their own ends.

The "exchange" banks had the hold on the minds of officials in India and in England, and Indian progress was at every stage blocked by them.

There is an open door in banking in India and any foreign institution could establish itself without let or hindrance, or without any legal obligations.

Foreign banks are foreign in character in their shareholding and in their directorate. There is no liability for audit of their accounts. Their activities and affairs in this country remain an absolutely closed book to the public and to the Government of the country. It is desirable that the Standing Finance Committee should call for particulars from the Board of Revenue in order to see whether adequate income-tax is paid by foreign banks.

Foreign banks hold a monopoly of foreign exchange business and a strong position in internal banking, which they propose to hold on to, by obstructing all reforms.

Complaints pointing to distinct hostility of foreign banks towards Indian persons, Indian companies and Indian institutions generally, have been heard in the past and were repeated before our Committee by responsible representatives of Indian commerce. In spite of denial of prejudice and of discrimination against Indian interests and disparagement of Indian effort, it was obvious that the complaints against them were well-founded.

A fervent appeal by Sir Purshotamdas Thakurdas for establishing a basis of goodwill before the Committee's work was over, was barren of results.

Lack of co-operation between Indian and foreign banks was noticeable. There was no feeling of comradeship between them and difficulties arose in the matter of call money and admission to the clearing house. In regard to the recognition of Indian insurance and shipping companies and in other directions, the foreign banks have shown themselves exclusive and intolerant.

By working in an Association, the foreign banks have chosen to act deliberately in an atmosphere of mystery, isolation and irresponsibility. Some of the rules of their Association are calculated

to keep out the business of Indian banks and Indian jobbers in exchange.

The Committee could not examine whether the obligatory charges levied under the other rules and payable by the clientele were excessive or reasonable.

The absence of any public authority charged with safeguarding public interests has precluded the examination of these rules as to whether they are legitimate, or whether they are in restraint of trade and against public interests.

It is necessary to determine whether India is not paying a double commission for moneychanging, both on exports and on imports, to the foreign institutions on account of the peculiar organization in India of trade and banking.

The rate payable on an import bill is an arbitrary rate of 6 per cent. *plus* a charge for remitting the money back to London, and on export bills, it is based on the prevailing bank rate in India.

The claim, therefore, that these banks bring cheap money from abroad and make it available to Indian trade is fictitious. Restrictive facility to Indians engaged in trade on the part of foreign banks, render their claim for doing efficient banking service to India hollow and untenable.

After many years' activities, the reluctance of parties abroad to give credit to Indians engaged in import and export trade, involves a serious reflection on the efficiency of foreign banks, who constitute the channel of information about Indian business houses.

Indian exporters' bills are not readily discounted, and margins are asked for. D/A facilities are not always available to Indian importers on the same basis, as they are available to foreigners.

With the exception of countries lying between here and China, India is the only country, which has both import and export bills expressed in a currency other than its own. Foreign banks cannot be exonerated from the responsibility for this situation.

Active steps will have to be taken for the introduction of rupee bills in the import trade of this country.

Service offered by foreign banks is not cheap.

The question of profits earned by the foreign banks in this country should be examined to see, how far they are legitimate and how far they are the result of non-competitive rates, or monopoly, or exclusive opportunity and privilege. The profits, from a glance at both reserve and dividend, of the foreign banks are considerable.

The low rate, at which foreign banks receive deposits, is not necessarily transferred to the clientele in lower charges.

The Committee have not been able to ascertain, whether the Controller of Currency is able to secure from foreign banks a competitive rate in the matter of Government remittance, and whether

foreign banks, through agreements or otherwise, do not make a profit on this.

European witnesses expressed themselves happy with existing conditions and deprecated any changes. Indian witnesses expressed themselves with a singular unanimity, that the present situation should be altered.

Public opinion in India has demanded in the past that the field of banking should be reserved for institutions registered in India.

The open door to foreign banks in India should cease and a system of licenses should be established. The issue of a license must be a matter of absolute discretion of the authority, on whom the duty is fixed, and its renewal must also be a matter of their judgment.

The power of licensing is a part of the sovereign power of the state and if the Reserve Bank Board are entrusted with this power, they would have to take into account, when necessary, "reasons of state," which may be divorced from banking and financial considerations.

It is essential, that the licensing of foreign banks should be instituted forthwith, and, pending the establishment of the Reserve Bank, the Standing Finance Committee of the Indian Legislature should exercise this power.

It is not desirable that a system of licensing should be instituted for Indian banks also. The object of licensing foreign banks is to protect different classes of Indian public and Indian institutions from unsound foreign banks, from malpractices, unfair competition, anti-social and anti-national activities, which they might indulge in.

The terms should be elastic to meet an emergent situation, or to ward off an apprehended danger.

The claim of foreign banks to equality with Indian banks would mean the negation of all regulation in their case.

The terms of the license are to be:—

(1) The licensed bank should not receive deposits in India from Indian-born persons or joint stock companies registered in India.

(2) The licensed bank shall confine its branches to the port areas only, and no branch shall be opened in the interior.

(3) Controlling interests, directly or indirectly, shall not be acquired in Indian institutions in order to defeat the above provision, or for any other motive.

(4) The existing branches in the interior should be withdrawn *pro rata* within five years, and the banks concerned should submit forthwith a programme indicating the manner and extent to which, they will be withdrawn during each of these five years.

(5) It shall not be open to the licensee to engage in this country, in trustee business, which would put Indian funds in its hands.

(6) Except the manager and one official in each branch under him, the whole staff shall be Indian.

(7) The licensed bank shall pay full income-tax on its earnings in this country and disclose all accounts and particulars to enable the revenue authorities to frame the demand.

(8) The assets of the licensed bank, in the event of liquidation, would be liable to be taken possession of by the official Receiver of High Courts in India, and the license is issued on the basis, that the licensee agrees that Indian creditors will have a full prior right in such assets.

(9) Copies of all statistical returns, reports, papers and balance sheets, prepared in connection with the business of the Indian branches and supplied to their head offices, would have to be lodged with the licensing authority in India.

(10) All information in the form, in which it is desired by the licensing authority, relating to business done in this country would have to be given by the bank. The licensing authority will have absolute discretion, as to which of this information should be published.

(11) The licensing authority will determine whether, and which, branches of the licensee bank will be admitted to the clearing house.

(12) The licensing authority will also determine whether, and which, branch of the licensee bank will be eligible for rediscount or any other facilities from the Reserve Bank.

(13) The licensee bank undertakes that its officials shall not participate in any anti-national movement in India, or assist such movement with funds, or in any other manner.

(14) That it shall not, in combination with other foreign banks or persons, make a ring or a pool, or a combination or working arrangement without the express permission of the licensing authority, who will see that such action on their part does not harm Indian interests.

(15) That it shall not combine with other banks, Indian or foreign, to make business rules, or impose charges payable by its Indian clients, which shall not have been approved of by the licensing authority.

(16) The licensed bank undertakes to conform to the laws of India in all disputes, which may arise between it and any Indian-born person or company registered in this country, and that neither the bank nor any of its officials will claim any special privilege in contravention of such laws.

The desire to get in apprentices in foreign banks, or to have advisory boards of Indians at their principal offices in India, is a manifestation of the spirit of servility, which seeks a subordinate association with the foreigner. These suggestions are not, therefore, recommended.

The terms should not be mechanical and they should be such as would secure healthy and ordered development of Indian banking. The imposition of restrictions for the sake of imposing them, without seeking to accomplish a definite economic object, cannot be justified.

The principle of reciprocity in the matter of the terms of the license would involve a variety of impositions on banks from different countries, but would let off the British banks very lightly, thus involving "Imperial Preference by the backdoor." It would cause unnecessary irritation, without achieving any object. It is the menace of British banks working in the interior, to the growth of Indian banking, which has to be checked by a system of licensing.

Licensing must have a definite aim of national policy and should not be a mere formality.

There is no reason to fear, that England would retaliate by shutting out the Chetties from Singapore, if proper terms were imposed on British banks working in this country.

If the position of foreign banks is left untouched, there is the danger of an extreme reaction, which might bring into existence a party advocating a "bag and baggage" policy. A moderate restriction now on that part of the activity of the foreign banks, which is immediately harmful to India, would, therefore, be in public interests.

The restrictions suggested are as follows:—

(1) It should not be open to foreign banks, or foreign persons, or syndicates to acquire controlling interest in any banking institution in India.

(2) No foreign bank should take deposits from any Indian-born persons or company registered in India.

(3) A bank not registered in India should not be eligible for rediscount and other facilities from the Reserve Bank.

(4) The offices of foreign banks should be confined to the municipal limits of the principal ports in India.

The broad principle underlying these provisions is that, only banks, which are registered under the Indian law, and which are controlled by a majority of Indian shareholders, should have full and unrestricted privileges in respect of banking in India. Such institutions alone are entitled to the use of that part of the savings of the people, which become bank deposits. Such institutions alone should be eligible for help from the central bank, which would be practically a limb of the state, and which would have under its control the most notable, extensive and concentrated accumulation

of funds belonging to the people in India, *viz.*, the banking reserve, the currency reserve and Government balances.

The reservation of the field of internal banking for Indian banks would affect only nineteen branches of four foreign banks, located in eleven places, four of which are not trading centres. No public inconvenience will be caused as the Imperial Bank, and in some cases more than one Indian joint stock bank, have their branches at these places. The evasion of this provision by the registration of Indian institutions controlled by foreign banks should be rendered impossible.

The peril to Indian banking from the acquisition of fullfledged Indian institutions by foreign interests, is illustrated by the case of the Allahabad Bank. Five years' period should be allowed for the controlling interest in the Allahabad Bank to be placed in Indian hands.

The proposed terms of license would enable foreign banks to operate at ports in their legitimate function of financing foreign trade without any let or hindrance.

Taking away Indian deposits from them might induce them to bring cheaper money from their country, which will enrich the Indian money market. It would be the test of England's boast regarding financial internationalism and the free use of the savings of English depositors abroad in institutions, which finance her own foreign trade as well as the foreign trade of India.

The effect of the terms of license, as proposed, would be to restrict slightly the field of profits for foreign banks and to expand it slightly for Indian banks. It will ward off the invasion of internal banking brought about by the increased number of foreign banks.

Savings are meagre in India and that portion of the savings, which become bank deposits, is limited.

On such savings of Indians, Indian institutions, Indian trade and Indian industry have an absolutely prior claim.

Every country in the world has devised regulation of the activities of foreign banks to suit its requirements. New countries, like the United States of America, whose banking organization was built on model lines later, keep a predominant share in banking in their own hands. Taking of deposits of American money by foreign banks is absolutely prohibited in such financial centres as New York. Canada, South Africa and Australia, in the Empire, have felt resentment at the dominance in their country of institutions controlled from London and have taken various steps against such domination.

The apprehension, that prohibition of Indian deposits in foreign banks would create a money trust in the hands of the Imperial Bank of India is not justified.

The suggestion, that foreign banks act as a medium for the export of Indian capital secured by them from cheap deposits in

India, has not been denied, but the justification offered, that there should be free mobility of capital cannot be upheld. In view of the acknowledged shortage of facilities to Indian trade and industries India must build up her national finance first, before indulging in international finance.

The export of capital at the hands of foreign banks and of trading and banking profits, through the use of the Indian money, enriches the economic like of countries other than India.

The right of the depositor to place his money anywhere he likes, cannot be pleaded against reasonable regulation by the state, since the entire foundation of law and taxation in every country involves the limitations of private ownership and of the rights arising from such ownership.

The suggestion, that prohibition of Indian deposits with foreign banks would render the position of the depositors unsafe, is mischievous and unsound. There is no ground for assuming that Indian depositors generally believe their money to be safer with foreign banks than with Indian banks. The lower rates charged by foreign banks do not offer, in themselves, the ground for such belief.

Indian depositors, shut out from placing their money with foreign banks, where they earn a very small interest, will have, besides Indian banks, many other suitable alternatives including new land mortgage bonds and industrial bonds with Government guarantee, recommended by the Committee.

Indian depositors, in placing their money with foreign banks, are not seeking safety, but courting danger by placing themselves under an alien economic system. No effective protection can be given to them against the risk, to which they are exposed. Their collective action is a source of peril to Indian banking and to Indian economic life.

The fear, that the shutting out of deposits will remove the support, which 'exchange' banks give to Government securities, is grossly exaggerated and need not be taken into account.

Powerful foreign interests have created difficulties in financial centres like London and Amsterdam compelling the central banks there to shut them out from rediscount facilities. The task of the Reserve Bank of India in controlling foreign institutions would be difficult, but it would be assisted by these measures.

Indian banking institutions are fully prepared and competent to expand under the leadership of the Imperial Bank of India for the needs all internal banking and for the financing of internal trade. This field should, therefore, be reserved for banks registered in this country.

If the increasing volume of operations of foreign banks in internal banking is not checked, the progress of Indian banks, including the Imperial Bank, would be impeded.

Moderate regulation on lines suggested would prevent the growth of racial bitterness. Breaking up the monopoly of foreign banks in the foreign exchange business is desirable, but it would be necessary to determine, whether this could be done by the method of competition and by setting up one or more special institutions controlled by Indians, and increasing the present atmosphere of disharmony, or, whether an honourable partnership could be established and Indian aspirations to control banks engaged in this line can be satisfied on the path of goodwill and harmony.

The expectation, that the Imperial Bank of India would take up foreign exchange business, when they cease to be Government bankers, is justified, but no proposals with regard to the future programme of the Imperial Bank came before the Committee.

No new institution could come into existence by private enterprise, on account of the very strong opposition of foreign banks, and even a Government institution would have to face tremendous odds.

Some British banks have a very large amount of their total business in India, and if they abandoned their present warlike mentality, they might be tempted to come under Indian registration in order to retain, not merely the business, which they are doing at present, but also to avail themselves of the privileges, which would be reserved for Indian banks. They might prefer to take deposits and rediscounts in India, but they will have to transfer to Indians enough shares to make the institution Indian, instead of foreign. The initiative for any such development must come from those, who hold the field at present.

The proposal to hedge round the advent of a State Exchange Bank by delaying it, till after the Reserve Bank was established and till after the Imperial Bank had an opportunity of attempting exchange business, puts the practical realisation of a national aim too far off.

The path of a State Exchange Bank with monopoly of Government remittance business will be beset with many difficulties. Even if it were successful, it could only take a fraction of the total business in foreign exchange, without seriously affecting the position of the foreign banks in the interior.

Unaccompanied by the reservation of interior banking for Indian banks and the prohibition of Indian deposits in foreign banks, this measure will not attain the object, but will engender even greater disharmony, than exists at present.

The need of a bank separate from the Reserve Bank, if the Reserve Bank and the new institution are both of state ownership, is not clear. The change-over from state to private enterprise would be difficult in the case of a separate institution, than if a department of the Reserve Bank were entrusted with the task.

The outlook should be, that ultimately the financing of foreign trade must be done not, from a state institution, but from Indian private enterprise.

A programme should be prepared of the nature and kind of assistance, which would be rendered to Indian banks willing to enter this field.

The provision enabling the Reserve Bank to act as agent of Indian banks in foreign countries, with a general improvement in the outlook of Indian banks by various measures recommended, will bring Indian banks on the scene before long.

Complaints have been heard against the Imperial Bank in its treatment of Indian banks and Indian constituents.

The predominant share capital of the Imperial Bank is foreign and its superior personnel is foreign. The position should be examined without any delay and by negotiation, or by law, it should be provided that the controlling interests shall be Indian. Till this is done, public opinion will not accept the *bonâ fides* of the Imperial Bank claiming to assist Indian agriculture, Indian trade and Indian industry in preference to foreign interests. It is not right that a concern controlled by foreign shareholders, should be Government bankers in India.

The cash position of the Imperial Bank of India has in recent times deteriorated. The cash position of the Imperial Bank has to be watched, because this is the cash, to which everybody in India looks up for relief.

General deposits in the Imperial Bank have shown no increase in the last ten years. There is a marked increase in the Bank's investments, and diminution in loans. There is also an increase in cash credits and diminution in bills, facts, which are of great economic significance.

The profits of the Imperial Bank have shown a falling off in recent years. It was not possible to say whether the recent increase in the number and activity of the foreign banks did not affect the Imperial Bank very much at more than one point in India.

The existing constitution of the Imperial Bank, from the Indian point of view, is unsatisfactory.

The superior personnel of the Imperial Bank is foreign and will remain foreign for long, because Indian recruitment has only started at the bottom, and, except in the Bombay circle for one year, European recruitment has gone on, ever since the Imperial Bank came into existence.

The method of encouraging banking through the establishment of branches by the Imperial Bank is the most costly. Which, and how many branches were not paying, was not disclosed in our enquiry. Provision for branch extension in future should be left to the Reserve Bank, and the benefit of such provision should be made available not only to the Imperial Bank, but to other Indian joint stock banks.

The complaints that the branches of the Imperial Bank compete with Indian joint stock banks, were not denied, but were justified through the benefit to the borrowing public.

Depletion of funds in the district and their transference from the district to the large centres of the money market by the Imperial Bank was commented upon.

The relations of the Imperial Bank with the foreign banks, as whose agents it acts in the interior, are cordial and no complaints of any kind have been made by the foreign banks against the Imperial Bank.

Cash deposits by the 'exchange' banks in the Imperial Bank have shown considerable falling off in recent years, but no figures of overdraft facilities given by the Imperial Bank to the foreign banks were produced before us.

The existing arrangements for the issue of emergency currency are unsatisfactory. There is no reason why emergency currency should be issued on bills alone and only on those, which exist in the portfolio of the Imperial Bank. Government should take the power to issue emergency currency without restriction, either as to the rate, at which it is issued, or as to the amount.

As soon as the Reserve Bank is established, the Imperial Bank of India Act should be repealed and the Imperial Bank should be asked to register itself as an ordinary Indian joint stock bank.

As the contract with the Imperial Bank has expired, no special concessions are called for. Monopoly to the Imperial Bank of India acting as agents of the Reserve Bank, would not be in public interest.

No case is made out for a special act and constitution, special status and privileges and special contract to the Imperial Bank, after the Reserve Bank is established. It will be to public advantage, if the Imperial Bank took its rightful place at the head of Indian joint stock banks and derived the maximum benefit from the general measures recommended, which would improve the condition and outlook of all Indian banks.

The Reserve Bank would be able to carry out the dual obligations in respect of currency and credit control better and more economically, than they are carried out at present. The deficiency of the Imperial Bank as bankers' bank and regulator of credit, has strengthened the demand for this financial reform.

Frequent changes and high bank rates are avoidable, if the central institution could carry more cash and were also free to add to its cash by elastic provisions of the issue of emergency currency.

Rediscount facilities, which do not exist now, could be created by the Reserve Bank, through the increased use of bills and a bill market could be brought into existence.

There is room for serious apprehension, that there may be delays in the establishment of the Reserve Bank, on the ground that gold

and sterling reserves sufficient to secure its working in normal times should be first accumulated. If this is really the ground, a statement should be issued by Government indicating the specific amounts, which they consider adequate, and the difficulty of raising such amounts. There should be a special enquiry through a financial mission to New York as to, whether the amounts could not be raised there, if London is unwilling to give India the gold, for which India is willing to pay.

The balance of advantage is in the immediate establishment of the Reserve Bank with such funds, as are at the moment available. India cannot have a central bank better than she can afford, but it would be a considerable improvement over the present position and would clear the ground for necessary banking reform in other directions.

The issue of the Reserve Bank should not be mixed up with the reservation of financial powers in the hands of the Viceroy, as that might cause delay in its establishment.

The Chairman ruled out discussion of questions bearing on: (1) Whether the Reserve Bank should be a state bank, or a shareholders bank, and (2) What should be the constitution or its directorate. No recommendation is, therefore, made on these subjects.

The Reserve Bank will be the most powerful instrument affecting the economic life of this country, and to the outside world, everything, which the Reserve Bank of India will do, will be the index of the mind of India. It should, therefore, reflect in all respects the Indian nation, such as it is.

In other countries, central banks have grown in their long history, suited their requirements, and have exercised watchfulness, that foreign interests do not interfere directly or indirectly with the central financial institution.

The currency functions of the Reserve Bank could not be discussed on account of a decision from the Chairman to that effect.

In the Reserve Bank bill, as previously introduced, the unhealthy and injurious effect of the London City opinion on India's financial destiny, and the triumphant dominance of vested interests in banking in India could be discerned. Banking provision in the 1928 bill occupied a subordinate position.

Conditions affecting bank rate in India have been artificial. The bank rate affects millions of contracts and the value of all kinds of economic assets. In other countries great care is exercised to avoid frequent fluctuations or high levels. Bank rate in India at present means the rate, at which the Imperial Bank will lend against government securities. In other countries it means the rate at which the central bank will buy bills.

A provision should be made to enable the Reserve Bank at its discretion to discount paper of member banks at a rate lower than

the published rate. In advanced money markets, the discount rate on bills is very much lower than the bank rate, and the market has normally enough funds to make resort to the central bank unnecessary. In India bills are scarce and banks are not used to rediscount. In order to increase the vogue of bills and to induce banks to use rediscount facilities freely, discretion should be vested in the Reserve Bank to make a special rediscount rate for banks, different from that, which it charges to the public.

The emphasis put by the Hilton-Young Commission, that the central bank should not do ordinary banking and should at no point compete with any banking institution in the country, was a counsel of perfection and was the basis, on which foreign vested interests in banking in India were able to secure in the 1928 bill unusual provisions, restricting by law the power of the Reserve Bank of India to borrow, to buy bills, or sell remittance to the public, to open branches in the interior, to limit its holding of agricultural and other internal bills.

The Reserve Bank will need to work with great caution and conservatism in the initial years, but restrictive provisions of this kind on the statute book are not desirable.

Though unusual in most countries, the provision of compulsory deposit of cash by banks taking deposits in India is recommended.

If the privilege of taking deposits from Indians is not taken away from foreign banks, they would also be brought under the scheme of compulsory deposits, but the extension of any benefits to them of rediscount or otherwise, would be a negation of policy. The central currency and banking authority of India should not be at the mercy of foreign institutions, who should be shut out both from deposits and rediscounts in India. The practice in the United Kingdom and in Holland offers wholesome precedents of central banks confining rediscounts either to banks registered under the national law, or to bills that bear the signatures of their own nationals.

The Reserve Bank should be free in the matter of foreign bills and remittances to sell and to buy, to whoever it likes, and should be free to enter the open market at any stage and not merely at the gold points.

Statutory power should be given to the Reserve Bank to enable it to act as agent outside India for any Indian joint stock bank, for collecting money abroad on behalf of such joint stock banks, or for accepting bills on behalf of such bank. In practice, the Reserve Bank should not do this work, except on the deposit of adequate security in India and after the elimination of every element of risk to itself.

Discretion should be given to the Reserve Bank in law with regard to the period of maturity of agricultural and other bills, which it will purchase, as well as in regard to their amount.

Private bankers not engaged in trade, whose own capital is not less than Rs. 2 lakhs, should be eligible for membership of the Reserve Bank and should be exempted from the provision of the compulsory deposit of cash. They should get the benefit of the Bankers Book Evidence Act, cheap remittance and other facilities given by the Reserve Bank for member banks. This measure is calculated to stay the recent disintegration of the Indian banking system, which is finding it difficult to meet the assaults of the foreign system. It is hoped, that this measure will also lead to the establishment of acceptance houses and discount houses.

The balances from post office savings bank and the sale of postal cash certificates should be transferred to the Reserve Bank and should be made available, through it, for trade and industry.

The issue of gold cash certificates recommended by the Hilton-Young Commission should be made as soon as the Reserve Bank is established. In order to strengthen the gold position of the Reserve Bank and to increase the visible supply of gold in its hand at any particular moment, it is recommended that the Reserve Bank should have a monopoly of importing gold bullion in India for non-currency purposes. In order to have this done with as little interference as possible with the bullion trade of the country, the Finance Department should invite a conference of important bullion interests to fix up details.

The withdrawal by the Imperial Bank of free remittance facilities to its customers from one account to another, has been a retrograde step. The Reserve Bank should undertake in practice the obligation in the case of member banks and bankers, who have accounts with it, to transfer funds from one branch of the Reserve Bank to another free of charge. Similar obligation should be imposed on the agents of the Reserve Bank, whoever they are.

If inducements are considered necessary for the Imperial Bank to enter a field, which is not unprofitable, the outlook for Indian banking may be regarded as very poor indeed.

The Reserve Bank authorities should be left free to fix suitable agency arrangements on suitable terms, but arrangements extending to twenty-five years would be opposed to considerations of business as well as of public policy.

The Reserve Bank should have a branch in each province, in order that free remittance and other benefits should be brought to the interior, and it could have first-hand information in regard to parties, etc. This would be also necessary in order to enable the Reserve Bank to discharge its function as central banking authority.

Apart from the statutory division of issue and banking departments, inside the banking department itself several sections would have to be created. One will deal with the co-operative movement,

one with the land mortgage debentures, one with the business of foreign exchange, apart from the maintenance of exchange, one with the administration of the savings bank funds, and one with the distribution to the market of gold bullion imported.

In view of the important happenings, both in India and abroad since 1927, the Reserve Bank bill should be redrafted, before it is considered by the legislature.

The attitude of Government to nascent enterprise has a very direct influence on the growth of industry. The state represents the final and superlative power in the community. In the past, Indian state policy was dominated by ideas of free trade, which also coincided with the comfortable notion of India, producing the raw materials and affording a standing and permanent market for the manufactures of the United Kingdom.

The absence of an industrial policy is much more noticeable in India than its presence. Indian opinion holds, that the reason for this is the overwhelming influence, which foreign vested interests enjoy with those, who govern and direct the policy. It is necessary to counteract the mischievous effect of explanations usually given for the fact, that India is backward in industry, and the share of Indians in such industry as exists in the country is small. Attempt to ascribe to Indians in business matters a different psychology is, generally made to divert attention from, and to conceal, the privileged position of the foreigner.

The "dearth of capital" is a relative term, true of every country, but the problem in India is more of foreign control of Indian capital.

Formulation of a definite industrial policy is called for, because, the prosperity of the community, which includes scope for employment, is bound up with successful enterprise in the country, and in the failure of such enterprise, not only the parties directly concerned, but the community, lose something. Growth of industry would lead to the growth of capital by the retention of profits and wages in India. Concerted action of all sections of the community is wanted for the success of an industrial policy. A free field and minimum interference by Government has involved the large concentration of resources in foreign hands and the consequent placing of a mortgage on the wealth of this country. Indian witnesses not only believed in the inadequacy of facilities to India, but felt that larger facilities were available to foreigners for the same class of security than to Indians.

Banks, working in their own interests, prefer financing trade. Banking funds are severely limited. Industry, particularly that controlled by Indians, suffers financial shortage.

Existing banks have claimed, that they are financing industry, but they cannot be said to have fully realised their responsibility to it. An undue emphasis on due dates and repayment with regard to loans to industrial concerns can intensify a downward situation,.

against which industry may be fighting. Banks could not prosper, where the industry of the people is in a weak condition.

The two signatures rule, in addition to concrete security, which is obligatory in the case of the Imperial Bank, and a normal practice in the case of other banks, amounts to the demand on the part of banks for a guarantor before industry can have any money, however sound and flourishing it may be. There is shortage, not of capital, but of credit.

The rate and volume of Government borrowing in recent years have affected direct deposits by the public in industrial concerns. If banks had made considerable progress, one would have promptly said that the method of direct deposits was a primitive method, unsuited to the requirements of modern industry, and that it should be discouraged, but until such a moment was reached, it would seem to be a blessing.

Managing agents have found finance for industrial concerns, but, as a rule, without risk or loss. The managing agency system absorbs too large a share of profits and interferes with the flow of capital into industry, by making it less attractive to the investor. The system of transfer of control of industry by heredity, or by sale, to parties not approved of by the company, is one, which must be put an end to by law, and a provision to that effect should be inserted in the Indian Companies Act, the revision of which is in sight. A provision, which prevents the contract for management being limited to a certain number of years and being good during that period only, if a specified individual is able to offer his personal services, will not prove hard, where there are capable partners in the managing agency firm.

All over the world, the banking system as a whole lends to industry as a whole, on the basis that loans are for short-period, but this is a fiction. Industry carries no cash, but stocks. Loans could be only repaid by a company from a new loan elsewhere. The banking system of the country must adjust itself to the requirements of industry and not *vice versâ*. The suggestion, which was made by the foreign " experts ", that it is improper for banks to give finance to industrial concerns either for capital shortage in the block, or for extensions, or even for normal working capital, is opposed to the industrial history not merely of this country, but of other countries.

The idea, that not merely capital requirements, but normal working capital could be secured by debentures, instead of by bank loans, has only been partially realised even in advanced industrial countries and cannot be realised in India for a very long time to come. The debenture affects the credit of a concern with banks and with suppliers of material, as well as selling agents, and is regarded in India as a sign of financial weakness rather than of strength. Debenture finance is not feasible and would be more costly than bank loans.

The amount of debenture issue on the basis suggested would be larger, even for existing industries than could be possibly absorbed

by the market. Everything should be done to make the issue of debentures popular. To meet the financial requirements of industry, to the extent to which they are unsatisfied now, is beset with more than one difficulty. It cannot be accepted as the sole measure for securing to industry, all that it would require in the way of finance. As an immediate panacea, it holds out no hope. The need for special institutions, which would know the requirements of industry, assess the value of the security offered, and give advances for long-term, is established.

European witnesses were opposed to an Industrial Bank, sceptic about its need, doubtful about its success, and frankly hostile to the notion of state aid to such an institution. An Industrial Bank is wanted to make available to industry larger volume of finance than industry can get at present, and on better terms both as to the period of the loan and the rate of interest. It would do for industry what ordinary bank does for commerce.

The prospects of such an institution coming into existence by private enterprise, without any assistance from state, are small. Assistance by Government to the Industrial Bank, which will enable it to come into existence and have the necessary funds for its operations, does not necessarily involve assistance by the latter to industrial concerns, except on purely business considerations. It is because industry is willing to pay the price for finance, and yet is unable to get it, that something substantial has to be done.

Apart from loans on sound lines, industry would require other assistance. This would have to be given by Government through a special machinery created for this purpose. Enterprise and capital might be available, but information is lacking. The primary aim of Government should be to bring relevant information together and to make it available to the business community.

There should be a census of production on lines laid down centrally, and it must be uniform for all India. A small board consisting of one economist, one businessman and one technologist with the Director of Industries acting as secretary and member, wherever such an official exists, would have to be set up in the provinces. A similar all-India board would have to sit and would have to work in close collaboration with provincial boards. The formulation of an industrial policy by the state and its declaration should take place centrally.

The establishment of an Industrial Bank should not be delayed on the ground of the depression of trade. The Industrial Bank should have branches for the present at Bombay, Calcutta, Madras, Lahore and Cawnpore. Such funds and energy as India can spare should not be used for independent provincial organizations. Excessive emphasis on the autonomy of the provinces in the matter of industry is calculated to create separate interests and centrifugal tendencies.

The bonds of the Industrial Bank should have the guarantee of Government and should be included in the list of Trustee securi-

ties. The guarantee of the central Government would enable larger funds to be raised at a lower rate, both in India and abroad, and a fair distribution of these resources amongst the provinces, some of which may not be able to raise large funds.

Legislation relating to commerce and industry is, and will, remain, central. Assistance to industry in the matter of customs tariff, railway rates and stores purchase could be better secured by an all-India institution. The co-ordination with the administrative machinery of the provinces would, of course, be necessary. Administrative conveniences should not be allowed to create artificial divisions in the economic life and organization of the country. There will be convenience and economy in a central institution with regard to technical advisers, training of staff, pooling of experience and information, both inside the country and from abroad. Duplication and waste of effort would be avoided.

The capital of the Industrial Bank should be Rs. 5 crores, and for some years Government should hold not less than 51 per cent. of it. There should be no statutory limit to the amount of bonds, which may be issued, but the board of the Industrial Bank should act in close co-operation with the board of the Reserve Bank to regulate the borrowing operation.

There should be no prohibition with regard to the taking of deposits by the Industrial Bank at its various branches, but the rates for such deposit should not be in effective competition with rates offered by Indian joint stock banks.

The Industrial Bank would be an experiment on a large scale and in a direction, which will effect national wellbeing. Government should, therefore, try, in consultation with Provincial Governments, to secure the co-operation of the best minds of the country.

The managing governors at the centre and the managers of the provincial branches must be men, who, with their other qualifications, would share the national outlook.

The Industrial Bank would help their clientele in various ways indicated. It would be essential for the Act constituting the bank to give it wide powers, and the delegation of such powers to provincial managers and provincial boards should be left with the central board.

The savings per head in India are small and the addition to the country's wealth every year, after repairing the wastage of capital stock, is small.

Capital savings are the result of a keen realisation of the future accompanied by a feeling, that what is saved now would be reasonably safe and would be available to the party in suitable form, when he needs it in future.

India's national production, though very considerable in the total, is very low per head. Her consumption, in spite of the low standard of life, eats up much of what is produced.

The first claim on a man's savings in India is for ornaments on the person of the wife. India is paying a heavy price for this archaic system of carrying her savings.

A part of the savings of the community at any particular moment becomes bank deposits. The encouragement of savings should be an important objective of state policy. Public opinion should be created on this subject. The absence of machinery of saving is responsible for small total savings.

The postal savings bank has made considerable progress, since it was started. The number of accounts and the amount to the credit of each individual are smaller in India than in most other countries. The post office savings bank should become to the poor man what ordinary banks are to better classes.

Additional facilities suggested should be created. Departmental and official objections should not be allowed to stand in the way of improvement in the thrift machinery of the country, and a departmental enquiry should be promptly set up with a view to effect the reforms suggested.

The use of the term "savings bank" by foreign banks, should be prohibited forthwith, as well as by all Indian banks, who have not hitherto taken "savings bank" deposits. With regard to Indian banks, including the Imperial, a period of five years should be allowed to enable them to adjust matters, after which the use of the word "savings bank" by them should be interdicted.

Facilities for insurance, which Government make available from the post office to Government employees, should be thrown open to the public, provided the rates offered by Government are not such as to compete unfairly with private enterprise. It should be provided, that moneys received by foreign insurance companies in India by way of premium, should not be moved outside this country. If foreign insurance companies must operate in India and take away profits, it is at least essential that the use of the Indian funds should go to swell the resources of the Indian money market.

A law on the model of the Industrial and Provident Societies Act in the United Kingdom should be passed, having regard to Indian conditions, and such a law should be used not merely to regularise the position of Nidhis and Chit funds in Madras, but of various schemes in operation on a small scale in different parts of the country, in which the small man makes a regular periodical contribution in the expectation of getting his money back with interest, or the equivalent advantage at a later date.

From the point of view of the community, much greater interest would attach to the application of the system of hire purchase, or instalment purchase, if it is used in connection with instruments of production, instead of objects of consumption.

Apart from permitting the withdrawals from the post office savings bank by cheques, Government should pay by cheques the salaries of all employees above one hundred rupees, at least at

places where facilities for cashing the cheque are available. It should be made lawful for payment of land revenue and all other dues to Government from members of the public to be made by means of the cheques.

Gold cash certificates should be issued, and leaders of social opinion should urge its use in place of ornaments for dowries.

The gap in the investment market between government securities and speculative shares has to be filled by the creation of intermediate instruments, and would be filled by the land-mortgage debentures and industrial bonds. Debentures of industrial concerns issued under the guidance of the Industrial Bank would come next.

The establishment of investment trusts in India is possible and desirable. An immeasurable benefit to India is bound to come from the establishment and proper working of investment trusts and the assistance, which they will give to the investor in the creation of intermediate securities, which do not exist now, in providing a channel for investment in industrial and other fields, where the primary investor would be too scared or too ignorant. The investment trust would also assist in carry-over for industrial and other concerns particularly on issue of additional capital in the form of preference shares or debentures where banks cannot, and do not, venture now. In one way or another, the operations of the investment trust will enrich the Indian money market and will fill up the gap, which is all too noticeable in its present organization. On the other hand, an investment trust, if properly organised, might be in a position to attract considerable capital from abroad.

The process of Government borrowing and spending has hitherto been entirely independent of any considerations of its effects on private enterprise. The volume and the rate of Government borrowing affect the rate, at which trade and industry can get accommodation. The correlation of the capital needs of the Government and the capital needs of private enterprise is necessary.

The land-mortgage debentures and industrial bonds suggested in this report are necessary to strengthen the economic life of the country, to reduce the burden of the enterprising classes both in agriculture and industry, and to increase their motive for larger production. A small committee should be appointed by the legislature to make a detailed examination of the capital requirements of Government, including the new directions, and of fixing a reasonable allocation of the total funds raised by the credit of the state.

The object of all regulation is to enable the relative rights of parties to be clearly determined and to make provisions, which would prevent any individuals, in search of their own interests, to interfere with the rights of other individuals, or the common rights of the community.

Regulation pertaining to foreign banks operating in this country should be as follows:—

(1) No bank, which is not registered in India, and whose capital is not expressed in rupees, should be allowed to

establish branches outside the municipal limits of ports.

(2) No banking institution registered in India should be allowed to be controlled by a foreign person or company.

(3) There shall be a separate register of shares at the registered office of a banking company, showing Indian holders and non-Indian holders separately. That it shall be obligatory on the directors of the company to refuse all transfers from the Indian register to the European register, but not *vice versâ*.

(4) That it shall not be lawful for any Indian-born person or naturalised Indian, or for a company registered in India, to place his, or their, money on deposit in a bank, that is not registered under the Indian Banking Act.

(5) That every bank, which is not registered in this country, and which seeks a license to work in this country may, on application, be given a license at the absolute discretion of the Minister of Finance. This license would be renewable every two years and the Minister shall have absolute power to refuse renewal, when, in his opinion, in the interests of the country, such renewal would be justified.

(6) Prior to the license being granted, and on the application for the license being made, the Finance Minister, or his authorised representative, shall take an undertaking, which shall be duly confirmed by the board of supreme authority of the applicant bank, to the effect that, in the event of stoppage of payment, or of the failure of the bank, the local assets shall not rank *pari passu* with other assets, but shall be retained for the discharge of such obligations in this country, as may have been incurred by the bank.

It is because foreign hold on banking would perpetuate foreign hold on the economic life of this country, that regulation in these directions is asked for. Discrimination is unavoidable in practice. In the minds of Indians it exists, because discrimination in the past has been against them. India is more likely to gain the confidence and respect of the world by intelligent economic reorganization, than by keeping the door open for exploitation. There need be no fear, that India would lose international goodwill and her credit abroad by intelligent regulation.

Early steps should be taken to bring under one Act provisions not only of the Companies Act applicable to banks, but other provisions scattered in case law or in other Acts as well as the recommendations made in this report. Opinion from commercial bodies, the stock exchange and the shareholders association, should be invited, and when the material is ready, a representative conference should be called.

The institution of a license for Indian joint stock banks is not recommended.

The minimum capital for an Indian joint stock bank should be Rs. 50,000, but the Reserve Bank board should have the authority to make an exception. The authorised capital should not be more than twice the subscribed capital, and the paid-up capital should not be less than half the subscribed capital. Existing institutions should be assisted by exemption from stamp and other duties, to enable them to conform to this requirement within some time after the Bank Act was passed.

The majority of the shareholders in an Indian bank should be natural-born Indians and this majority should not be less than 60 per cent. The majority of directors in an Indian bank should be natural-born Indians.

It should not be open to the directors or to the company to mortgage the uncalled capital, which must remain as a security for the satisfaction of creditors.

The power of directors of joint stock companies to refuse a transfer of shares and their registration in any particular name, cannot be modified in the case of banks, unless the general principle in its application to joint stock enterprise is sifted and examined.

The Finance Department should have a consultation with the stock exchange authorities in order to reconcile the convenience of all sections concerned and to meet the legitimate objections of the stock exchange against blank transfers being made illegal, by a specific reduction of stamp duty.

It should not be open to banks registered under the Indian Bank Act to declare a dividend exceeding 6 per cent. unless and until their reserve fund equals half the capital, and to declare a dividend beyond 9 per cent. until the reserve fund equals the whole of the capital.

Granting of loans to directors of banks and auditors, or to any firms in which they are partners, should be prohibited.

It should not be permissible in law for a bank to make any advances against its own shares.

Shareholders will have the right not only to appoint auditors, but to fix the remuneration given to them. It should not be legal for the management to give to the auditors of the bank any extra remuneration, which is not approved of, or confirmed, by the shareholders.

A provision should be made for accounts of branches to be audited by a qualified auditor, but such qualified auditor may be one practising in the muffasil, and different from the principal auditor of the bank.

The form of balance sheet provided in the Indian Companies Act is unsuitable to the special requirements of the banks. A new form is desirable and has been prepared. For the purposes of exposing in a conspicuous place at the registered office and every

branch of a bank, no separate statement should be required. The balance sheet should serve the purpose.

It is essential that the central banking authority should have direct information of changes in the controlling interests of banking institutions, and the obligation should be laid on the board of directors to inform them of any such changes.

Amalgamations between banking institutions in India should not take place without the permission of the central banking authority.

Power should be vested in the central banking authority, by which, in the case of a bank getting in difficulties, disaster may be avoided, if it is avoidable.

Provision should be made that the liquidator, in the case of banks, shall be appointed by the Reserve Bank, who would also have the obligation of giving such relief immediately to depositors as may be possible, but this latter should be a matter of discretion of the directors.

Tendencies of human nature cannot be corrected except by deterrent punishments, where frauds are detected. The obligation in the interests of the community to secure deterrent punishment to delinquents is not at present being fully discharged.

Publicity attached to criminal complaint by shareholders of banks, might be considerably reduced, if the obligation is laid on the law officer of Government to examine the subject matter of the complaint and to allow the prosecution, only if he is satisfied. Proceedings before a magistrate should be ' in camera ', and should be allowed to be published at that stage, whether he is satisfied that facts, which will go out to the public, will not be the facts on one side only, but as stated by both sides.

Consequential changes in law and procedure as well as the working of every class of courts arising out of these recommendations will have to be made in many directions. All legal points arising out of the Banking Report should be summarised for examination by the Legal Departments of Provincial Governments and the Government of India.

Artisans with technical skill, being thrown out of their hereditary occupation in many parts of India, swell the number of common labourers to the great detriment of the economic interests of India. It is cheaper to devise measures for preserving handicrafts and small industries than for bringing into existence new ones. Strengthening the credit machinery in the districts, generally, would react favourably on the artisan. No recommendations by Provincial Committees should be rejected without a close examination.

Mortgage credit would be assisted in urban and rural districts by improvement in the nature of the security, procedure of borrowing, the reduction in costs, and avoidance of delays in recoveries. The system of equitable mortgages should be extended to more

places, and Provincial Governments should be given the power to declare the places, where it will be applicable.

It is desirable to encourage trade bills and to discourage cash credit. The ideal is to abolish stamp duty on internal bills of exchange, but it should be at once considerably reduced. If the finances of Government do not permit this, an *ad hoc* tax may be levied on cash credits.

Existing duties on transfer of shares and on debentures should be reduced.

In order to attain the ideal of free remittance in India, Government should set an example by reducing money order charges at the bottom, and the Reserve Bank should give facilities for free transfer from one branch to the other. It should be arranged that the agent of the Reserve Bank in the mofussil should also give this facility. The proposal for the grant of facilities for transfer free of charge in postal savings banks accounts from one account to another and from one place to another, should be carefully examined.

It is desirable to encourage the use of vernaculars in regard to hundis, cheques and passbooks.

Clearing houses should be organized, not merely at the ports, but in the interior. The control should vest in the Reserve Bank and foreign banks should either be excluded, or, if they are admitted, it should be on the understanding that such admission could be withdrawn at any time.

An all-India act should be passed on the lines of the Industrial and Provident Societies Act, which would be applicable not merely to 'nidhis' in Madras, but to all varieties of institutions, where contributions are taken from small men periodically.

The system of banking built up by Chetties deserves great commendation and facilities should be given to them by the central institution.

A special officer should be appointed for watching the loan offices in Bengal and arrangements should be made to secure funds to such loan offices, against suitable securities from the Imperial Bank of India, till the Reserve Bank is started, and thereafter from the Reserve Bank.

It should be obligatory, that all goods placed in licensed warehouses should be insured with Indian insurance companies.

A common association of all banks and bankers should be formed in this country, but such an association should not have the power of regulation and could not replace the central banking authority, proposals for which are contained in the Provincial Committee's reports.

It is desirable to discourage Indians from seeking certificates of foreign associations in examinations held in this country, and corresponding facilities should be created in this country. It is not desirable to spend Government funds on scholarships abroad for the

study of banking. Commercial education is progressing at many universities and it would be better for boys to take advantage of this curriculum in preference to the arts course. Good bankers would be created by suitable models at the top and by "espirit-de-corps" at the bottom amongst the staff, and not from academic institutions.

MANU SUBEDAR.

ANNEXURE I.

SOME PAPERS RELATING TO MY FAILURE TO GET ADEQUATE INFORMATION REGARDING FOREIGN BANKS.

Letter dated the 17th October 1930, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

I have urged the necessity for receiving prompt information with regard to the deposits and advances of the Exchange Banks and other foreign banks working in this country. I was told once that this information was being collected in India, and subsequently the Chairman said that he had written to the India Office to get this information. As I am not very clear as to what is being done with regard to—

(*a*) British Banks, and

(*b*) Non-British Banks,

in the matter of collecting the necessary and detailed information, I should be much obliged if you will let me know the position.

You will realise that with regard to the sub-Committee, which has been appointed, for a draft of the statement on the financing of foreign trade, its work cannot proceed very far without these relevant facts. As it is many months ago since the request for these facts was made, it is possible that the replies have been already received by you, but have not been circulated. If that is so, please let me have an early intimation.

I should also like to know what arrangements have been made for the examination of Sir Osborne Smith, which was going to take place sometime before the end of October.

Letter dated the 20th October 1930, from the Secretary, Indian Central Banking Enquiry Committee, to Mr. Manu Subedar.

With reference to your letter dated the 17th October 1930, I beg to state that the sub-Committee on the Financing of Foreign Trade desired me to obtain from the Chairman of the Exchange Banks' Association, Calcutta, accurate information as to the extent to which the Exchange Banks take a part in the financing of local industries, internal trade and agriculture. This was done in my letter of the 10th September 1929 and I was informed that these details were not available here and as they were of a strictly confidential nature, it was suggested that I should ask the Director-General of Commercial Intelligence and Statistics to endeavour to prepare them in a consolidated form through the same channel as he obtains the figures relating to Capital, Reserves, Deposits and Cash recorded on page (1) of the Statistical Tables relating to Banks in India published by his department. I accordingly wrote to him and I understand that he is in correspondence with the India Office in this matter. I sent him a telegram recently to enquire whether he had received the information and I was told that it had not yet been received.

As a result of the discussions in Committee, a further letter has been sent on the 12th September 1930 to the India Office asking for the information in the enclosure in regard to the operations of British Exchange Banks in India. The India Office has been requested to obtain the information by requesting each of the Exchange Bank's offices in London to favour them with the information confidentially, and to consolidate these figures and supply the Committee with a statement for all the banks together.

The Chairman understands that it will be very difficult for the India Office to get similar information for the non-British Exchange Banks who have not got their offices in London. The Chairman will, however, discuss this matter with the India Office on arrival in London.

The question of the examination of Sir Osborne Smith will be considered after the Chairman returns from London.

INFORMATION REQUIRED FROM BRITISH EXCHANGE BANKS WORKING IN INDIA.

Deposits in India.

31st December 1929.	Current accounts and money payable at call			Fixed and short deposits.		
	Non-Indian	Indian.	Total.	Non-Indian.	Indian.	Total.
	Rs.	Rs.	Rs	Rs.	Rs	Rs.

Advances in India.

Loans, Cash Credits, Overdrafts and Local Bills discounted.

(BILLS of Exchange to be excluded.)

31st December 1929.	Non Indian.	Indian	Total.
	Rs.	Rs.	Rs.

(This form was enclosure to Secretary's letter dated 20th October 1930.)

Letter dated the 23rd October 1930, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

I beg to acknowledge your lettter dated 20th October 1930. In view of the fact that the Chamberlain Commission also experienced difficulty in getting information about the operations of the Exchange Banks, I regret to learn that after twelve months' efforts from the 10th of September 1929, the few particulars, which the Committee desires, are not being made available by institutions, who have disclosed the strongest objection to any interference with their working in this country.

2. I cannot understand that the figures are not available in India and that the respective banks are regarding their figures as confidential even against the Government of the country.

3. I shall be obliged if you will ask the Chairman whether he expects the necessary information before the Committee makes a report.

4. With regard to the form in which the information is asked for from the India Office in your letter dated 12th September 1930, I have to suggest that the closing date of the year is not a very satisfactory date, particularly in the matter of advances when it is well known a certain amount of window-dressing takes place. Will you please write in, giving them also the 31st of March, 30th of June and 30th of September 1929 as the dates for which the information is wanted?

5. The information would further be incomplete with regard to the heading put down as " advances in India ". Should there be deposits from outside India and advances to parties outside India, the information must be made available to us to enable us to judge the position. I trust you will be, therefore, able to get these items included. I shall be obliged if you will let me know what is being done in the above matters.

6. With regard to the non-British Banks, who are members of the Association in India and to all intents and purposes enjoying similar privileges and the protection of the Indian law, I cannot possibly understand the inabiliy

of the Government of the country to get the necessary figures from them. If the Finance Department of the Government of India is not helping the Committee in this matter, or, if there are any other difficulties, it would be just as well to state them clearly, but I do not feel at all happy at the statement of the India Office to the Chairman that it will be very difficult to get similar information from non-British Exchange Banks. I would be much obliged if you will request the Chairman to let me see the correspondence in connection with this and to let me know where the difficulty arises; whether the India Office has definitely asked the non-British Exchange Banks for the information and these institutions have refused, or, whether the India Office have not yet asked them for the information and are merely apprehensive that such information may not be made available to them.

7. Will you please request the Chairman to let the sub-Committee appointed to draft a statement on the Financing of Foreign Trade know the result of his conference with the India Office on this subject?

Letter No. 2892, dated the 3rd November 1930, from the Secretary, Indian Central Banking Enquiry Committee, to Mr. Manu Subedar.

Will you kindly refer to your letter dated the 23rd October 1930, which I discussed with you in Bombay under instructions from the Vice-Chairman? I have now asked the Finance Department to obtain confidentially figures from the non-British banks similar to those already called for from the British banks and to supply us in a consolidated form the figures for all the non-British banks in India.

2. In view of the fact that the Exchange banks do not publish any statement in regard to their Indian business separately, the Vice-Chairman does not apprehend that there is any window-dressing which would vitiate the figures which we have called for as on the 31st December 1929.

3. The headings "Deposits in India" and "Advances in India" will include deposits and advances brought to account in the Indian books of the Exchange banks irrespective of whether the depositors or borrowers are resident in or outside India.

4. As steps are being taken to obtain the figures in regard to non-British banks in India itself, the Chairman is being informed that he need not discuss the matter with the India Office as originally suggested in my letter of the 20th October 1930.

5. It is expected that the information required from the banks will be received before the Committee makes a report.

Letter dated the 5th November 1930, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

I acknowledge your letter dated 3rd November. What I do not still understand is why the figures should come to us in a consolidated form either with regard to the British Banks, or with regard to the non-British Foreign Banks. Every Indian Bank, including the Imperial, give these particulars in a certain form and the Banking Committee know their exact position from their balance sheet. Personally I am not at all convinced that, as from a public commission of this kind, these foreign institutions should want to keep these figures as secret. I was told that the presence of Mr. Buckley on the Committee makes it difficult for them to disclose their affairs to a rival, but a statement of deposit figures and the figures of advances, including also their analysis as between Indian and non-Indian, is not a disclosure of the affairs of any kind from the point of view of business competition, and I would again urge on you to get into communication both with the Chairman and with the Vice-Chairman and to get these figures for each individual institution.

With regard to paragraph 2 of your letter, I beg to differ from the Vice-Chairman with regard to window-dressing. It would be impossible to judge the question of window-dressing, until one knows the dates when they close their accounts, and should the 31st of December coincide with either the end of the year or with any quarterly statement, which they prepare for any purpose, there may be some window-dressing. In any case particulars for one day do not allow the position to be gauged correctly, and I think it is desirable to secure the figures for a series of years to indicate whether the deposits and advances are on the wane or on the increase. Considering the importance of the enquiry and the many conclusions, which would necessarily arise out of these figures, I am sure neither the Chairman nor the Vice-Chairman would choke off a request for information and that everything will be done to secure these figures for more than one date.

I am not at all clear as to what you intend to write in paragraph 3. If information is not available as to what percentage of their total deposits in India are monies belonging to Indian constituents, and also what percentage of their advances in India, or investments in bills, etc., are made to Indian constituents, it would not enable the Committee to come to a decision on what I conceive to be one of the most important issues before them. That a Committee on which so much public money is going to be spent, should fail to give a decisive guidance to the country, merely because the Chairman or the Finance Department are nervous of insisting on definite information being given by Foreign Banks enjoying business advantages and the protection of Indian law, would be most unfortunate. I, therefore, trust that you will re-read all the communications, which you have sent down on this subject seeking this information, and if your previous communications admit of any doubt as to what is desired, I have to request you to take immediate steps to clear up the matter so that the desired information may be available in time.

With regard to your paragraph 4, as intimated in my previous letter, I have to request you to let me know:—

(1) Whether the India Office has approached the foreign banks at all for information,

(2) Whether the foreign banks have refused to supply figures according to the request by you to the India Office made about twelve months ago;

and it is very strange that the India Office authorities should not have communicated with the Chairman of the Committee whether they have made the effort, and, if so, whether they have failed in that effort to get the necessary figures from foreign banks. If you now write to the Chairman not to approach the India Office with regard to this, because the Finance Department in India is going to take it up, I fear the position of the Committee will be that it will be sent from pillar to post for important information, which the Government of the country ought to be able to get, and I trust that at the eleventh hour it will not be urged that the information is not available.

Letter dated 22nd December 1930, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

Some time ago I had requested you for several papers relevant to the enquiry, for some of which I had frequently reminded you. I shall be, therefore, obliged if you will let me know when I can expect to receive these papers, or, if such papers are not available, whether you have written to the Finance Department for them and they have refused to let you have them. As far as I remember, some of the papers mentioned to you are as follows:—

(1) Correspondence between Government of India and the Secretary of State on the question of the Central Banking Institution between 1900 and 1903.

(2) Do. do. do. do. in 1912.

(3) Representation by the Exchange Bankers' Association or any individual Exchange Bank to the Government of India in 1919-20, and 1920-21 in connection with the proposed amalgamation of the Presidency Banks.

(4) Do. do. at any time after 1926 when the question of the Reserve Bank was being considered by the Finance Department.

(5) Circular issued by the Imperial Bank of India to its shareholders relative to the terms which were being offered or discussed with the Government of India in connection with the Reserve Bank Bill.

(5) Volume of evidence placed before the Babington-Smith Committee.

Thanking you in anticipation.

[I regret that papers under (3), (4) and (5) were not made available.—MANU SUBEDAR.]

Letter dated the 20th February 1931, from Messrs. Manu Subedar, N. R. Sarkar, R. K. Shammukham Chetty, G. K. Devadhar and Mukhtar Singh, to the Secretary, Indian Central Banking Enquiry Committee.

Re information from the Exchange Banks.

We are of opinion that the information called for in the course of discussion of the Committee and otherwise should be made available as early as possible. The information asked for is with regard to the position of the Indian business of each of the banks working in this country and in the matter of deposits and cash for four dates in the year in order to obviate the seasonal factor.

We do not regard as sufficient the reason which is being given for not giving the information separately for each institution and for not supplying statistics explicitly and fully. We regard the statement, which purports to give percentages of bills in foreign trade for Indians and non-Indians, as misleading, and the absolute figures, on the strength of which these percentages have been calculated, should be given to the Committee. Similarly full particulars of the activities of institutions other than British working in this country should be forthcoming.

We would request that a formal communication under the signature of the Chairman should go to each of the nineteen institutions working in this country with the request for this information, and a copy of such communication with replies received from each of these institutions should be circulated to members and should go on the records of the Committee.

Note by the Vice-Chairman, Sir Purshotamdas Thakurdas, dated 24th February 1931.

Mr. Subedar raised this question for the first time by his letter dated the 17th October 1930, enquiring what was being done with regard to British Exchange Banks and non-British Banks in the matter of collecting the necessary detailed information with regard to deposits and advances of the Exchange Banks and other foreign banks working in this country. The Secretary replied to him as per his letter of the 20th October 1930 that the India Office had been requested to obtain figures from the British Exchange Banks under certain heads and that it would be difficult for the India Office to get similar information from non-British banks who have not got their head offices in London. To this letter Mr. Subedar sent another letter dated the 23rd October enquiring whether the Chairman would let him see the correspondence in connection with this and let him know where the difficulty arises. In the last paragraph of the said letter he requested the Chairman to let the sub-Committee appointed to draft the statement on the Financing

of Foreign Trade know the result of his conference with the India Office on this subject. The Secretary in his letter dated the 3rd November informed Mr. Subedar that the information regarding non-British banks had been applied for and in paragraph 4 of the said letter he communicated to him that the Chairman was being informed in London that he need not discuss the matter with the India Office as steps were being taken by the Secretary to obtain the figures of the non-British banks in India itself. In his further letter of 5th November, Mr. Subedar asked to be informed whether the foreign banks had refused to supply the figures according to request made by the Secretary to the India Office about 12 months back. This request made to the India Office about 12 months ago had reference to certain decisions arrived at by the first sub-Committee on Financing of Foreign Trade which met at Calcutta and which wanted information regarding the extent to which Exchange Banks take part in the financing of local industries, internal trade and agriculture. The sub-Committee wanted the information to be obtained from the Chairman of the Exchange Banks' Association, Calcutta, and in reply to a letter sent to him by the Secretary, the latter was informed that these details should be obtained confidentially through the India Office by the Director-General of Commercial Intelligence and Statistics, in the same way as he obtained statistical tables relating to banks in India published by him. The Director-General, Commercial Intelligence, informed the Secretary that he had written to the India Office but had not received a reply. This matter was mentioned in Committee by the Chairman in Poona before he sailed for London who further explained that the general information asked for by the first sub-Committee had been supplied by the Exchange Banks' Association by means of their written and oral evidence and that he would consider what further figures should be collected. It was after this that the letter to the India Office was issued asking for certain specific figures regarding advances and deposits of British Exchange Banks.

2. As suggested by Mr. Subedar himself in the last paragraph of his letter of the 23rd October, I, when presiding over the meeting of the second sub-Committee on Financing of Foreign Trade on 30th November 1930, put the whole correspondence up to that date before the sub-Committee and got the sub-Committee's view on this question. The sub-Committee unanimously were of the opinion that the efforts that had been made up to then would meet the requirements of the Committee and nothing further was required to be done. It is true that Mr. Subedar was not present at that meeting but it was not possible to change the date of the meeting, ever so much I may have liked to do so to suit Mr. Subedar's convenience. The figures available in connection with British Exchange Banks have already been circulated. The figures regarding non-British Exchange Banks are with the office and the Secretary is waiting for figures regarding three banks, which may be expected to be on their way from London to India. The Secretary tells me that there has been a mistake regarding the direction of these figures by the non-British banks to the India Office instead of sending them direct to the Secretary here.

3. The percentage shares of Indians and non-Indians in foreign trade was a thing which was discussed in Poona. Mr. Buckley volunteered to get information of the percentage share of Indians and non-Indians for all-India together. It was pointed out that this would give an incomplete picture as different percentages of different banks could not be tabulated together. Mr. Buckley tried to get separate figures for each bank individually. The percentage figures obtained in this way have already been supplied to the members. Mr. Khaitan promised to send a statement showing how the Indian Chamber of Commerce have arrived at their figures. This has been received and is being examined by the Joint Secretary.

4. The only new point in the letter from Mr. Subedar and five other members of the Committee is that figures regarding deposits and cash should be obtained for four dates in the year instead of one, in order to obviate the seasonal factor. This same point was considered by the sub-Committee on Financing of Foreign Trade that met at Poona and they agreed with me

that there is no use troubling the Exchange Banks for more figures as it may delay the submission of even necessary figures. I have reason to believe that some other members of the Committee besides those who were present at Poona at the Foreign Trade Sub-Committee meeting held the same opinion. However, it is open for the Committee now to decide whether they wish to press for these figures.

5. In the second paragraph of this joint letter a doubt has been thrown on the accuracy of the percentages given. The Committee may consider how to proceed if this feeling of doubt is shared by the Committee. The signatories to the joint letter have rather overlooked the fact that the percentages that are given are both for British and non-British banks and therefore the last sentence in this second paragraph of the letter appears to have been written under a misapprehension.

6. In view of the above, the question of making a formal communication over the signature of the Chairman hardly arises until the Committee have decided the question raised in the joint letter.

Letter dated the 20th March 1931, from Mr. V. Ramadas Pantulu, to the Secretary, Indian Central Banking Enquiry Committee.*

With reference to the papers circulated by you on 27th February 1931 inviting an expression of opinion on Mr. Manu Subedar's requisition *re* obtaining certain information from the Exchange Banks, I have the honour to state as follows:—

The information asked for seems to me to be certainly relevant to the enquiry. What use the member was going to make of it and in what manner it would help the Committee is another matter. How the first sub-Committee appointed to deal with the Finance of Foreign Trade proposed to obtain certain information and the view of the second sub-Committee that no further effort should be made to obtain the information do not to my mind dispose of the right of the member to press on the Committee as a whole the need for the information.

I feel that in the ordinary course the request of the member might have been passed on to the concerned Banks with a request to let the Committee know whether the Banks were willing to furnish the information or not, and if willing to what extent and when. A negative answer directly from the banks would perhaps have served the purpose which the member had in view in some way though not in the same way as if the information was furnished.

On the whole my view is that the procedure adopted in dealing with Mr. Manu Subedar's request is not justifiable.

[Mr. Mukhtar Singh wrote " I agree ".]

Letter dated the 9th March 1931, from Mr. Manu Subedar, to the Secretary, Indian Central Banking Enquiry Committee.

Further to my several letters on the subject of information from foreign banks working in this country, I have to request you to secure me the following information:—

(1) The number of depositors who have—

(*a*) current accounts, and

(*b*) fixed deposit accounts,

with the 19 foreign banks working in India on any date, for which this information is available.

(2) How many of these were British, non-British foreigners, Indian, or companies registered in India.

I consider that it is impossible for any Indian to be assured with regard to the existing position of foreign banks in this country without information

* This letter has not been received by the Secretary.—V. K. A.

of the kind, which I have asked for. The refusal of the foreign banks to place this information at the disposal of the Committee would be on a par with the refusal of a party in a law suit, who possesses relevant documents and who, on being called upon to produce them, does not produce them, permitting full adverse inference against him.

Letter dated the 10th March 1931, from the Secretary, Indian Central Banking Enquiry Committee, to Mr. Manu Subedar.

With reference to your letter on the subject of information from foreign banks, dated the 9th March 1931, I beg to inform you that the Chairman proposes to bring the matter forward before the Committee when the Committee discusses the letter signed by certain members of the Committee, dated the 20th February 1931, on the same subject.

[This was the last I heard about this matter. I have no knowledge whether this matter was ever brought before the Committee and whether they came to any decision on it.—MANU SUBEDAR.]

ANNEXURE II.

ANSWERS TO MR. MANU SUBEDAR'S QUESTIONS.

Q. 1.—Rate at which banks are taking deposits for (*a*) three months, (*b*) six months, (*c*) one year.

A.—Depends on the trend of the money market, whether more or less than Reichsbank rate is offered. This trend changes frequently. Without trend the rates would be approximately (*a*) to (*c*) 1 per cent. below bank rate, rising to bank rate, the longer the term.

Q. 2.—Rate at which banks give advance as—

(*a*) cash credits (if they exist in your country),

(*b*) loans unsecured, *i.e.*, clean advance,

(*c*) secured loan against (1) Government security, (2) property, (3) Block as collateral.

A.—For private or commercial customers (*a*) to (*c*) 3 per cent. above bank rate for Reichsmark—loans; between banks, clean or against collateral on listed securities, according to market rate which varies permanently.

Q. 3.—Rate at which (*a*) customer can get his bill discounted, (*b*) bank can get *its* bill rediscounted.

A.—Reichsbank discounts only at bank rate. Banks discount to customer around bank rate, generally a little lower according to market; Banks for banks slightly lower.

Q. 4.—Rate of yield on Government Treasury Bills.

A.—3 months-bills somewhat below bank rate with variations for 6 months or 12 months bills according to market.

Q. 5.—Rate of yield on Government paper.

A.—If "paper" means long term bonds, the question cannot be answered for Germany because owing to general and special conditions variations in the last year have been large, and shorter and longer terms cannot be compared. Present yield would in case of new say 3 to 5 years loan probably be between 6 and 7 per cent.

Q. 6.—Bank rate of the day.

A.—5 per cent.

OTTO JEIDELS.

Money Rates in Canada.

Q. 1.—Rate at which banks are taking deposits for (*a*) three months, (*b*) six months, (*c*) one year.

A.—3 per cent. all round general.

Q. 2.—Rate at which banks give advance as (*a*) cash credits (if they exist in your country), (*b*) loans unsecured, *i.e.*, clean advance, (*c*) secured loan against (1) Government security, (2) property, (3) Block as collateral.

A.—A. B. C. usual rate 6 per cent.

Q. 3.—Rate at which (*a*) customer can get his bill discounted, (*b*) Bank can get *its* bill rediscounted.

A.—A. 6 per cent. at his own Bank.

B. No rediscount market.

Q. 4.—Rate of yield on Government Treasury Bills.

A.—No regular Treasury Bills.

Q. 5.—Rate of yield on Government paper.

A.—If long term Bonds meant the last loan issued few months ago was on 4·28 per cent. basis.

Q. 6.—Bank rate of the day.

A.—No Bank rate as no Central or Reserve Bank.

G. C. CASSELS.

Rates in England.

Q. 1.—Rate at which banks are taking deposits for (*a*) three months, (*b*) six months, (*c*) one year.

A.—(*a*) 2½ to 2¾ per cent. for sums over £50,000
(*b*) 2¾ to 3 per cent. for sums over £50,000
(*c*) 3 per cent. for sums over £50,000
} Ordinary Deposit rate 1 per cent.

Q. 2.—Rate at which banks give advance as—

(*a*) cash credits (if they exist in your country),

(*b*) loans unsecured, *i.e.*, clean advance,

(*c*) secured loan against (1) Government security, (2) property, (3) Block as collateral.

A.—(*a*) 4 per cent. (Warehouse receipts).
(*b*) 3 per cent. to 4 per cent.
(*c*) (*i*) 3 to 3½ per cent.
(*ii*) 4 per cent.
(*iii*) 3½ to 4 per cent.
} These rates are for large loans, the other loans are at 4 to 5 per cent.

Q. 3.—Rate at which (*a*) customer can get his bill discounted, (*b*) bank can get *its* bill rediscounted.

A.—(*i*) Trade bills 3 to 4 per cent. bank acceptances. Fine bill rate 2 5/32 for 3 months.

(*ii*) A Bank can discount its acceptance at 2 5/32; the rediscount rate at the Bank of England is 3 per cent.; for this purpose bills require the signature both of the acceptor and the discounter.

Q. 4.—Rate of yield on Government Treasury Bills.

A.—Probably 1/32 above fine bill rate.

Q. 5.—Rate of yield on Government paper.

A.—Short Bonds about 2¾ per cent. Long term loans about £4-8-0 per cent. 5 per cent. War Loan (which is eligible to be paid off and is priced at 104) about £4-14-0 per cent. if not repaid before 1945; if it were paid off this year the yield would be about £1-2-0 per cent.

Q. 6.—Bank rate of the day.

A.—3 per cent.

B. CURRIE.

Rates in Holland.

Q. 1.—Rate at which banks are taking deposits for (*a*) three months, (*b*) six months, (*c*) one year.

A.—The conditions of the present accounts are not exactly known by me so that the figures are to a certain extent based on valuation, (*a*) 1 per cent., (*b*) 1½ per cent., (*c*) 3 per cent.

Q. 2.—Rate at which banks give advance as—

(*a*) cash credits (if they exist in your country),

(*b*) loans unsecured, *i.e.*, clean advance,

(*c*) secured loan against (1) Government security, (2) property, (3) Block as collateral.

A.—2. An answer to this question is not possible since the rates depend on various circumstances and vary permanently. Cash credits against first class

securities may under present circumstances be expected to be available at a rate of 4 per cent.

Q. 3.—Rate at which (*a*) customer can get his bill discounted, (*b*) Bank can get *its* bill rediscounted.

A.—3 (*a*) $1\frac{1}{4}$ per cent.

(*b*) $2\frac{1}{2}$ per cent.

Q. 4.—Rate of yield on Government Treasury Bills.

A.—$1\frac{3}{4}$ per cent. 3-month bills. 2 per cent. 6-month bills.

Q. 5.—Rate of yield on Government paper.

A.—$3\frac{1}{2}$ per cent. 12-month notes.

Q. 6.—Bank rate of the day.

A.—$2\frac{1}{2}$ per cent.

L. J. A. TRIP.

Foreign Banks—Legal Restrictions.

Q. 1.—What is the number of foreign banks operating in your country?

A. Canada: None unless Barclays Bank (Canada) Ltd., may be counted a Foreign Bank. *England:* Numerous. *Holland:* Numerous. *Dutch East Indies:*—Numerous. All similar to Exchange Banks. *Germany:* None—no legal restrictions.

Q. 2.—Are any restrictions of any kind placed on the working of such banks?

A.—The Secretary of Central Banking Enquiry is preparing a memorandum.

Q. 3.—What is the magnitude of the deposits held by these foreign banks and what is the percentage of such deposits to the total banking deposits in the country?

A.—No figures available.

Q. 4.—Are these deposits largely from the nationals of the country or from foreign nationals?

A.—Banks take deposits from both, current account being mainly from own Nationals and for time deposits they compete in the open market.

Q. 5.—Are the loans made by such banking institutions using such deposits largely to the nationals of the country or to foreign nationals?

A.—Deposits are largely used for trade with the country where the banks operate and for other foreign trade.

Q. 6.—What are the holdings in foreign currency of the Central Banking Institution of your country?

A.—*Canada:* No Central Bank. *England:* None published but negligible amount. *Holland:* On 29th December 1930 investments in Foreign Exchange and balances Abroad 293,000,000 florins—in Inland Bills, Loans and Advances 148,050,000 florins. Thus Foreign Investments were almost 200 per cent. of Home Investments. *Dutch East Indies:* On 11th October 1930 investments in Foreign Exchange and balances Abroad 71,371,000 florins, 7,93,00,000 Rs.—in Inland Bills, Loans and Advances 57,162,000 florins, 6,35,00,000. Thus foreign investments were nearly 125 per cent. of Home investments. *Germany:* 1. On December 15th, 1930 investments in Foreign Exchange 550,000,000 Rms. = 37 crores rupees in place of gold—being part of cover for notes issued. 2. Free balances of short term investments Abroad on December 15th, 1930 about 25 crores rupees.

Q. 7.—Do these holding represent reserve against note issue or other forms of currency or do they represent loanable capital invested abroad?

A.—*Holland:* All free balances, one held as reserve against note issues. *Germany:* Limited part (see statement) held as cover—Further balances available for investments in foreign markets callable at shortest notice.

Q. 8.—Are these currencies used to prevent gold from leaving this country?

A.—Yes.

Q. 9.—Is the Exchange sold by the Central Institution for this purpose and if so is it under law and regulation or mere banking conventions and convenience?

A.—No law or regulation—Central Banks Act according to best judgment.

Q. 10.—Are you aware of any restrictions on the banks of your nationality in any countries abroad and if so will you please indicate the object of such restrictions and its nature and the manner in which it works?

A.—See Secretary's memorandum.

Q. 11.—Have any banks been established by important interests in your countries, in countries abroad, registered under the laws of those countries?

A.—*Canada:* Yes. *England:* Yes. *Holland:* No. *Germany:* Very largely before the War.

Q. 12.—What is the object of such registration and how does it operate in practice to the advantage of the nationals of your country?

A.—Object is either to comply with the law or from matters of policy to attract business—or to restrict the obligation.

Q. 13.—Are any banks in your country called Exchange Banks? Even if they are not called by this name, are there any banking institutions which you can compare with what are known as Exchange banks in India?

A.—Only called Exchange Banks in Dutch East Indies. The title of Exchange Banks is very misleading. Foreign Banks where established in own countries do much the same business as the so-called Exchange Banks in India.

Q. 14.—Will you please lay on the table a copy of any laws operating in your country in the matter of regulation of banking indicating the directions in which the State has found it necessary to safeguard the banks as well as the public with regard to the operations of banks generally?

A.—Only Bank Act of Canada available. The Secretary could collect other Bank Acts.

ANNEXURE III.

Confidential.
D. O.

9, Queensway, New Delhi.
The 21st March 1931.

Dear Sir Bhupendranath Mitra,

Banking Enquiry Committee.

It has been brought to my notice that in the course of the examination of the representatives of the Bengal Chamber of Commerce, it was suggested that a supplementary memorandum on the various points under consideration might be of value, but that no such memorandum has been sent in. I am afraid that at this stage it only remains for me to express my regret at finding that no action was taken in this connection by the outgoing Committee of the Chamber.

I understand that our assistance was specially sought in two general matters—firstly, towards allaying the disturbed feelings in the minds of the Indian commercial community, and secondly, towards lightening the task of your Committee.

As regards the first point, I should like to take this opportunity of expressing satisfaction at the happy termination of the recent conversations between the Viceroy and Mr. Gandhi, and I wish to assure your Committee that it is the earnest desire of my Chamber to take advantage of the improved atmosphere to create better relations between European and Indian commercial bodies.

I might also mention that my Chamber willingly responded to the recent invitation of the Bengal National Chamber of Commerce to discuss the jute crisis, and it gave us great pleasure to send invitations to representative Indian Chambers to the annual meetings of the Associated Chambers in December, and of the Bengal Chamber in February. We welcomed the presence of the President of the Indian Chamber at both meetings.

As regards the solution of your own Committee's problems, I do not see at the moment that we can render any useful advice or information beyond that already given. If, as a result of the publication of your report, it appears that my Chamber is able to take any practical part in the achievement of your objects, I am sure that the proposals will receive the most sympathetic consideration of my Committee.

Mr. Cook, who was the representative of the Exchange Banks Association on the Chamber Committee last year, gave oral evidence on behalf of both my Chamber and the Exchange Banks Association, and his successor on the present Chamber Committee informs me that the latter body fully endorse the sentiments expressed in this letter. I also understand from him that, as promised by Mr. Cook in Poona, copies of the Exchange Banks' Rules of business have been made more freely available to the public, and that with the approval of the London Association every support is being given to Indian Insurance Companies.

If you can suggest any further way in which I can assist you I shall be glad to do what I can.

Yours sincerely,
(Sd.) P. H. BROWNE.

Sir Bhupendra Nath Mitra, K.C.S.I., K.C.I.E., C.B.E.,
New Delhi.

Indian Central Banking Enquiry Committee.

The enclosed letter from Mr. P. H. Browne, President of the Bengal Chamber of Commerce, is circulated under the orders of the Chairman who desires that the letter should be treated as confidential.

K. C. SETH,
For Secretary.

New Delhi,
The 28th March 1931.

ANNEXURE IV.

SUMMARY OF RESOLUTIONS AGREED TO BY THE MEMBERS OF THE EXCHANGE BANKS ASSOCIATION IN BOMBAY, AND IN FORCE ON AND AFTER 1ST DECEMBER 1930.

1. *Hours of Business.*—The hours during which business in Exchange may be transacted through a Broker are:—

On Mondays, Tuesdays, Thursdays and Fridays 10 A.M. to 1 P.M. and 2-30 P.M. to 4 P.M.

On Wednesdays and Saturdays 10 A.M. to 1 P.M. No business may be entered into on Sundays and Holidays.

2. *Bullion* as a commodity may be bought, or sold, at any time on any day in the local market at a rupee price.

Bar gold and/or gold coin purchased for forward delivery is to be paid for one or two days prior to the day of departure of the Mail; if tendered earlier, interest at Imperial Bank rate is to be charged. Bar gold and/or gold coin tendered on Mail Day is to be treated as for the following Mail and interest charged accordingly. When buying Bar Gold and/or gold coin the Banks are to refuse to give the option of delivery of Bank Bills in the contract.

In all contracts made by the Associated Exchange Banks for Bar Silver, Bar Gold, Sovereigns or other Bullion sold to arrive, the longest time given for taking delivery after arrival shall be seven days.

Interest on Bullion shipments to India shall be charged at Bank of England rate with a minimum of 4 per cent. per annum.

Interest on duty, clearing charges, and other incidental expenses shall be charged at not less than Imperial Bank rate.

3. *Paying for Bills*—

Ready Bills are bills deliverable not later than first Mail and unless otherwise stated on the contract shall be payable as Mail Bills.

Forward Bills—All bills bought for a later delivery than the current Mail are Forward Bills. Forward Bills shall not be bought for "Cash on Delivery".

All contracts must definitely state that Forward Bills are deliverable within the Mail days of the contract period.

Until otherwise decided by the Associated Exchange Banks, Friday shall be considered Mail Day, but it is optional on the part of the paying Banker to accept bills on a Saturday for that Mail.

Payment for Forward Bills is not due until Mail Day but may be made not earlier than one day previous to Mail Day with the following exceptions:—

(1) If Friday be a Bank Holiday, Forward Bills will be paid for on the last working day preceding Friday.

(2) If Thursday be a Bank Holiday and Friday a working day, Forward Bills will be paid for on Mail Day.

If forward Bills are paid or passed to credit of current account previously, interest is to be deducted at not less than current Imperial Bank of India rate.

4. *Purchases and Sales of Foreign Exchange,* either for cash or forward delivery, must be paid for before 3-30 P.M. on week days and 1 P.M. on Saturdays.

The applicant for T. T. on London who pays the rupee equivalent before 12 noon on week days or before 11-30 A.M. on Saturdays shall be entitled

to expect payment in London on the same day. Later applications are liable to be paid in London on the following business day. Claims for delayed payment in London should be adjusted at Bank of England rate of interest, with a minimum of 4 per cent.

Penalties for Late Delivery—

On Sale Contracts:—Interest at 1 per cent. over Imperial Bank of India rate.

On Purchase Contracts:—Interest at 1 per cent. over Bank of England rate.

5. *Foreign Domicile Bills Payable in London.*—This class of bill will be subject to the following differences in relation to approved London Bills, if delivered under a contract made for D/A Credit Bills:—

Accepted payable in London or by on demand draft on London.

Demand Bills not less than 1/32nd

15 d/st to 3 m/st not less than 1/16d

4 m/st to 6 m/st not less than 1/8d

Options.—Option for delivery may be given as under:—

For Bills on Europe other than Coast Bills . .	1 calendar month.
For Coast Bills on Europe	2 calendar months.
For Bills in other than European Currencies .	2 calendar months.

Option of delivery in sale contracts shall in no case extend over more than one calendar month.

In the case of contracts made through a Broker, when more than one rate for bills with different deliveries is mentioned, the contract must state the amount and delivery against each rate.

6. *Presentation of Bills on arrival of goods.*—All bills bought with instructions to be presented for acceptance or payment on arrival of goods to carry interest until date of acceptance or payment at Bank of England rate—minimum 4 per cent.

7. *Contracts.*—(a) *Ready Contracts.*—Ready Contracts shall be deliverable—

(*a*) as between Banks, within 24 hours;

(*b*) as between Banks and Merchants, etc., within four days.

Contracts intended for immediate cash payment must be clearly stated as for "Cash".

(b) *Margins on Contracts.*—A Bank is entitled to full delivery under all contracts and to adjust any excess or deficiency at the current rate of the day; if a purchase, at current selling rate, if a sale, at current buying rate. Contracts not taken up are to be settled on the same principle.

(c) *Jobbing Contracts.*—No contract shall be made with a Broker as principal, or in a name known to be used by the Broker for the purpose of jobbing. A Bank must refuse to give delivery to or take delivery from any party other than the declared principal or an Exchange Bank.

(d) *Contracts in 64ths of a penny.*—All business offered, ready or forward, either in buying or selling, at rates tantamount to working in 64ths of a penny, that is to say, so much at one rate, and so much at 1/32 higher or lower, as the case may be, shall be refused.

Business in Yen, Gold Dollars or any other Foreign Currency, is not allowed in fractions lower than 1/8.

8. *Brokerage on Exchange Contracts.*—The brokerage on Sterling and other Exchange Sales to Merchants shall not be less than one-sixteenth per cent. and to all Banks one thirty-second per cent.

No brokerage to be paid on Drafts under £100 or its equivalent, nor on any contract the brokerage on which amounts to less than Re. 1.

The brokerage on inland rupee sales shall not be less than 1/64 per cent.

No brokerage shall be paid to others than Brokers recognised by the Association.

9. *Payment of B. C. and A. B.*—The T. T. and Demand rates for the Cash retirement of Sterling Bills are to be fixed from day to day, or as often as may be necessary, by agreement between the Associated Exchange Banks, and no Bank shall give a higher or lower rate for cash retirements than the rate so fixed. Outstanding contracts may be utilised for this purpose, but no brokerage is to be paid by a Bank on any contract or portion of a contract so utilised.

Payment in the form of T. T. or Drafts of other Banks will not be accepted.

10. *Parcels relating to Inward Bills.*—A charge of Rs. 2 per mensem, or any part thereof, is to be made on all parcels relating to Inward Bills.

11. *Insurance on goods relating to Inward Bills.*—The following are the rates for insurance on the invoice value:—

Three annas per cent. per month—minimum Re. 1.

12. *Rebate on Inward Bills.*—If determinable by the collecting Banker, rebate is not to be allowed at any higher rate than 2 per cent. under Imperial Bank of India rate; no rebate is to be allowed unless same amounts to 8 annas on each bill.

13. *Interest on Past Due Rupee Bills* is to be charged at 1 per cent. over the Imperial Bank of India rate, but never less than 6 per cent. whether on account of Bombay or any other Agency, unless authorised by the drawer or correspondent and then only in the case of Bills for Collection.

14. *Interest on Deposits.*—The interest on Deposits fixed for periods of six months or longer is to be calculated by the number of months. On Deposits fixed for shorter periods, interest is to be calculated by the number of days.

15. *Brokerage on Deposits.*—The brokerage on Deposits and Money at Call, shall not be less than 1/64 per cent. per month. No lesser amount than Rs. 50,000 shall be accepted as Money at Call.

16. *Money.*—The lender of Call Money must call for repayment and the borrower must intimate his intention to repay before NOON on the day on which the business is desired to be closed, and payment must be made by noon on that day. Money repaid on a Saturday must be by means of a cheque on the Imperial Bank of India unless called up by the lender.

17. *Telegraphic Transfers on London.*—The minimum charge for cost of telegram is to be three words; if sent triple express, four words.

The following rules in force with the Eastern Exchange Banks in London also apply to the Bombay Association.

1. *Commission on Bills for Collection.*—It is agreed that for the simple collection of bills, shipping documents, and/or other securities, from whatever point received on all places in India, Burma and Ceylon, where the contracting Banks are established, a commission of ¼ per cent. will be charged on all amounts up to and including £250 with a minimum charge of 2*s.* 6*d.* On amounts over £250 the charge will be 1/8 per cent.

2. *Partial Deliveries in the East.*—No partial deliveries of goods against partial payments of amounts of Invoices to be granted in India, Burma, Ceylon, Straits or Java, in respect of any article of merchandise except petroleum. (In abeyance until 31st March 1931.)

3. *Air Mail.*—Outward and Homeward Bills to be sent by Sea Mail only, unless the drawers make special request that the Air Mail should be used.

With regard to the sale of on demand drafts 1/32d. better may be quoted than for T. T. provided the Broker's Contract or Application Form contains the proviso "By Sea Mail only," otherwise Members will quote the same rate for on demand as for T. T.

4. *Commission on Guarantees.*—On Confirmed or Unconfirmed Guarantees or Authorities signed by Importers *without recourse*, $\frac{1}{8}$ per cent. commission to be charged on Bills up to 7 days' sight, and for Bills over that usance up to a usance of 3 months' sight a commission of $\frac{1}{4}$ per cent. to be charged. Any period in excess of 3 months' sight to be charged at the rate of 1/16th per cent. per month. This charge to be made whether a margin is obtained or not.

5. *Securities in Safe Custody.*—Commission to be charged on securities lodged for safe custody *on the withdrawal of the securities* at the rate of $\frac{1}{4}$ per cent. on the nominal or paid up value, up to Rs. 1,00,000 and on any excess over the first Rs. 1,00,000 the commission to be charged is $\frac{1}{8}$ per cent. on such excess.

Documents, Wills, Leases, Insurance Policies, etc., on which no value has been placed at the time of deposit will be subject to a minimum charge of Rs. 5 per sealed packet also on withdrawal.

6. *Periodical Payments.*—On all periodical payments a charge of Annas 12 per payment to be made in India, Burma and Ceylon, and 1 shilling per payment in London in respect of payments emanating from India, Burma and Ceylon.

The following comprise the Associated Exchange Banks in Bombay.

The Bank of Taiwan, Ltd.
The Chartered Bank of India, Australia and China.
The Comptoir National D'Escompte de Paris.
The Eastern Bank, Ltd.
The Hongkong and Shanghai Banking Corporation.
The Imperial Bank of Persia.
Lloyds Bank, Ltd.
The Mercantile Bank of India, Ltd.
The Mitsui Bank, Ltd.
The National Bank of India, Ltd.
The Netherlands India Commercial Bank.
The Netherlands Trading Society.
The P. & O. Banking Corporation, Ltd.
The Sumitomo Bank, Ltd.
The Yokohama Specie Bank, Ltd.

ANNEXURE V.

A BILL TO ESTABLISH A GOLD STANDARD CURRENCY FOR BRITISH INDIA AND CONSTITUTE A RESERVE BANK OF INDIA.

WHEREAS it is expedient to provide for the establishment of a gold standard currency for British India; to constitute a Reserve Bank of India to control the working of that standard and regulate the issue of bank notes and the keeping of reserves with a view to securing stability in the monetary system of British India; and generally to make provisions for matters incidental thereto; It is hereby enacted as follows:—

CHAPTER I.

PRELIMINARY.

1. *Short title, extent, commencement and duration.*—(*1*) This Act may be called the Gold Standard and Reserve Bank of India Act, 1928.

(*2*) It extends to the whole of British India, including British Baluchistan and the Sonthal Parganas.

(*3*) This section shall come into force at once, and the remaining provisions of this Act shall come into force on such date or dates, not later than the 1st day of July, 1929, as the Governor General in Council may, by notification in the Gazette of India, appoint:

Provided that the Governor General in Council may, by notification in the Gazette of India stating his reasons for such action, substitute for the year 1929 in this section the year 1930; and may, by like notifications, make two further successive substitutions of the years 1931 and 1932.

(*4*) Chapter III shall be in force for a period of twenty-five years and its operation may thereafter be extended for such further period or periods as the Governor General in Council may, by notification in the Gazette of India, direct.

2. *Definitions.*—In this Act, unless there is anything repugnant in the subject or context,—

(*a*) "the Bank" means the Reserve Bank of India constituted by this Act;

(*b*) "the Banking Department" means and includes all departments of the Bank other than the Issue Department;

(*c*) "bank rate" means the rate published by the Bank under section 47;

(*d*) "bank note" means paper money issued by the Bank;

(*e*) "the Board" means the Board of Directors constituted in accordance with section 9;

(*f*) "general meeting" means a meeting of the registered shareholders of the Bank;

(*g*) "gold standard country" means any country, other than British India, from which any person is at liberty to export gold and in which any person may obtain gold on demand from the principal currency authority on payment of the equivalent thereof, as prescribed by law, in legal tender currency;

(*h*) "Issue Department" means that department of the Bank which is charged by section 23 with the conduct and management of the note issue;

(*i*) "provincial co-operative bank" means any society which is registered or deemed to be registered under the Co-operative

Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies and the sole business and object of which is the financing of the other societies in a province which are or are deemed to be so registered;

(j) "the Reserve" means the assets of the Issue Department as specified in section 31;

(k) "the Reserve Fund" means the Reserve Fund referred to in section 46;

(l) "rupee coin" means silver rupees which are legal tender under the provisions of the Indian Coinage Act, 1906; and

(m) "scheduled bank" means a bank included in the First Schedule.

CHAPTER II.

Incorporation, Share Capital, Management and Business.

Establishment and incorporation of the Reserve Bank of India.

3. *Establishment and incorporation of Reserve Bank.*—(1) A Bank to be called the Reserve Bank of India shall be constituted for the purpose of taking over the management of the currency from the Governor General in Council and of carrying on the business of banking in accordance with the provisions of this Act.

(2) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

Share Capital.

4. *Share capital, share registers and shareholders.*—(1) The original share capital of the Bank shall be five crores of rupees divided into shares of one hundred rupees each, which shall be fully paid up.

(2) No amount in excess of twenty thousand rupees shall be issued to any one person or to any two or more persons jointly, and no person shall be allowed to acquire an interest in the share capital of the Bank, whether held in his own right, or held jointly with others, or held partly in his own right and partly jointly with others, to a nominal value in excess of twenty thousand rupees.

(3) Separate registers of shareholders shall be maintained at Bombay, Calcutta, Madras, Rangoon and Delhi, and a separate issue of shares shall be made in each of the areas served by those registers, as hereinafter defined, and shares shall not be transferable from one register to another save in accordance with conditions to be prescribed by the Governor General in Council.

(4) A shareholder shall be qualified to be registered as such in any area in which he is ordinarily resident or has his principal place of business in India, but no person shall be registered as a shareholder in more than one register or as a holder of an interest in the share capital of a total nominal value exceeding twenty thousand rupees; and no person who is not—

(a) domiciled in India, or

(b) a British subject ordinarily resident in India, or

(c) a company registered under the Indian Companies Act, 1913, or a society registered under the Co-operative Societies Act, 1912, or a scheduled bank, or a corporation or company incorporated by or under an Act of Parliament or any law for the time being in force in any of His Majesty's dominions and having a branch in British India,

shall be registered as a shareholder or be entitled to payment of any dividend on any share.

(5) The Board may, at its discretion, without giving any reason, decline to allot shares to any applicant or to register any transfer of shares.

(6) The areas served by the various registers mentioned in sub-section (3) shall be as follows, namely:—

(a) by the Bombay register—the Presidency of Bombay (including Sind), and the Central Provinces;

(b) by the Calcutta register—the Presidency or Bengal and the provinces of Bihar and Orissa and Assam;

(c) by the Madras register—the Presidency of Madras and the province of Coorg;

(d) by the Rangoon register—the province of Burma, and the Andaman and Nicobar Islands;

(e) by the Delhi register—the remainder of India, including the territories of Indian Princes and Rulers in India.

(7) The nominal value of the shares originally assigned to the various registers shall be as follows, namely:—

(a) to the Bombay register—one hundred and fifty lakhs of rupees;

(b) to the Calcutta register—one hundred and fifty lakhs of rupees;

(c) to the Madras register—forty lakhs of rupees;

(d) to the Rangoon register—forty lakhs of rupees;

(e) to the Delhi register—one hundred and twenty lakhs of rupees:

Provided that, in the event of the shares assigned to any register not being fully taken up at the first allotment, the Board may, with the previous sanction of the Governor General in Council, transfer a portion of such shares from that register to another.

(8) In allotting the shares assigned to a register, the Board shall, in the first instance, allot one share to each applicant qualified under sub-section (4) to be registered as a shareholder on that register; and, if the number of such applicants is greater than the total number of shares assigned to the register, shall determine by lot the applicants to whom the shares shall be allotted.

If the number of applicants is less than the number of shares assigned to the register, the Board shall allot the remaining shares to applicants who have applied for more shares than one; and if the number of extra shares so applied for exceeds the number of shares so to be allotted, the Board shall allot them among the various applicants in such manner as it may deem fair and equitable:

Provided that such allotments shall in all cases be subject to the restrictions contained in sub-section (2).

If, after all applications have been met in accordance with the provisions of this sub-section, any shares remain unallotted, they shall, notwithstanding anything contained in this section, be allotted to Government, and shall be sold by the Governor General in Council, at not less than par, as soon as may be.

5. *Increase, reduction and transfer of share capital.*—(1) The share capital of the Bank may be increased by the Board with the previous sanction of the Governor General in Council.

(2) Every such increase shall be fully paid up, and the areas to which such further shares shall be allotted and the price at which they may be issued shall be fixed by the Board with the like sanction.

(3) The Board may determine the manner in which any increase of share capital shall be effected.

(4) The share capital of the Bank may be reduced by the Board, with the previous sanction of the Governor General in Council, to such extent and in such manner as may be determined by the Bank in general meeting.

Offices and Branches.

6. *Head office, branches and agencies.*—The Head Office of the Bank shall be established in Bombay, and the Bank shall, as soon as may be, establish branches in Calcutta, Madras, Rangoon, Delhi and London, and may establish branches or agencies in any other place in India or, with the previous sanction of the Governor General in Council, elsewhere.

Management of the Bank.

7. *Management.*—The general superintendence of the affairs and business of the Bank shall be entrusted to a Board of Directors which may exercise all powers and do all such acts and things as may be exercised or done by the Bank and are not by this Act expressly directed or required to be done by the Bank in general meeting.

8. *Qualifications and disqualifications for Directorships.*—(1) Save as expressly provided in this Act—

(*a*) no person may be a Director, who is not or has not at some time been—

(*i*) actively engaged in agriculture, commerce, finance or industry, or

(*ii*) a director of any company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or of a corporation or company incorporated by or under any law for the time being in force in any place outside British India; and

(*b*) no person may be a Director who is—

(*i*) a government official, or

(*ii*) an officer or employee of any bank, or

(*iii*) a director of any bank, other than a registered society as defined in clause (*e*) of section 2 of the Co-operative Societies Act, 1912.

(2) The election or appointment as Director of any person who is a member of the Indian Legislature or of a local Legislature shall be void, unless within one month of the date of his election or appointment he ceases to be such member, and if any Director is elected or nominated as member of any such Legislature he shall cease to be a Director as from the date of such election or nomination, as the case may be.

9. *Composition of the Board, and term of office of Directors.*—(1) The Board shall consist of the following Directors, namely:—

(*a*) a Governor and two Deputy Governors to be appointed by the Governor General in Council after consideration of any recommendation made by the Board in that behalf;

(*b*) four Directors to be nominated by the Governor General in Council;

(*c*) two Directors to be elected by the Associated Chambers of Commerce;

(*d*) two Directors to be elected by the Federation of the Indian Chambers of Commerce;

(*e*) one Director, representing the interests of agriculture, to be elected by provincial co-operative banks holding shares to the nominal value of not less than five thousand rupees:

(*f*) eleven Directors to be elected on behalf of the shareholders on the various registers, in the manner provided in section 10 and in the following numbers, namely:—

(*i*) for the Bombay register—three Directors;

(*ii*) for the Calcutta register—three Directors;

(*iii*) for the Madras register—one Director;

(*iv*) for the Rangoon register—one Director;

(*v*) for the Delhi register—three Directors; and

(*g*) one government official to be nominated by the Governor General in Council.

(*2*) The Governor and Deputy Governors shall devote their whole time to the affairs of the Bank, and shall receive such salaries and allowances as may be determined by the Board, subject to any minimum prescribed by the Governor General in Council.

(*3*) The Governor, a Deputy Governor and a Director nominated or elected under clause (*b*), (*c*), (*d*), (*e*) or (*f*) shall hold office for five years, or thereafter until his successor shall have been duly appointed, nominated or elected, and, subject to the provisions of section 8, shall be eligible for re-appointment, re-nomination or re-election, as the case may be.

The Director nominated under clause (*g*) shall hold office during the pleasure of the Governor General in Council. He may attend any meeting of the Board and take part in its deliberations, but shall not be entitled to vote.

(*4*) No act or proceeding of the Board shall be questioned on the ground merely of the existence of any vacancy in, or any defect in the constitution of, the Board.

10. *Election of Directors representing shareholders.*—(*1*) The shareholders registered on the various registers shall elect delegates for the purpose of electing Directors to represent them on the Board, and the numbers of delegates shall be as follows, namely:—

(*a*) for the Bombay register—twenty-four members;

(*b*) for the Calcutta register—twenty-four members;

(*c*) for the Madras register—ten members;

(*d*) for the Rangoon register—ten members;

(*e*) for the Delhi register—twenty-four members.

(*2*) Every shareholder who has been registered on a register for not less than six months immediately preceding the election shall be entitled to vote at the election of delegates for the shareholders on that register; and no shareholder shall have more than one vote.

(*3*) The delegates for the shareholders on a register shall be elected from among those who are shown on that register as having held, for a period of not less than six months immediately preceding the election, unencumbered shares of the Bank of a nominal value of not less than five thousand rupees:

Provided that no person shall be elected as a delegate who is a government official or an officer or servant of the Bank:

Provided further that no candidate may stand for election, unless he has been nominated by not less than twenty of the shareholders entitled to vote at the election.

(*4*) The election of delegates for the shareholders on a register shall be held once in every five years, at a convenient time before the expiry of the term of office of the retiring Directors for the election of whose successors the delegates are to be elected.

(*5*) Delegates shall hold office for a period of five years:

Provided that, if a delegate ceases to be qualified for election under sub-section (3), he shall forthwith cease to hold office as a delegate.

(*6*) A casual vacancy in the office of delegate, in whatsoever manner arising, may be filled by the Board from among the shareholders for the time being qualified for election to that office under sub-section (*3*).

(*7*) The delegates for the shareholders on a register shall elect, from among those shareholders, the Directors to represent them on the Board, in accordance with this Act and the rules made under section 13.

11. *Removal of Directors.*—(*1*) The Governor General in Council may remove from office the Governor, a Deputy Governor, or any Director nominated or elected under clause (*b*), (*c*), (*d*), (*e*) or (*f*) of sub-section (*1*) of section 9, on a resolution passed by the Board in that behalf by a majority consisting of not less than fifteen Directors:

Provided that, in the case of a Director elected under clause (*c*), (*d*), (*e*) or (*f*), such resolution shall have been confirmed by a majority of not less than two-thirds of the persons present and voting at a general meeting expressly called for that purpose.

(*2*) A Director nominated or elected under clause (*b*), (*c*), (*d*), (*e*) or (*f*) of sub-section (*1*) of section 9 shall cease to hold office if, at any time after the expiry of one month from the date of his nomination or election or of eighteen months from the date on which this Act comes into force, whichever is later, he is not registered as a holder of unencumbered shares of the Bank of a nominal value of not less than ten thousand rupees, or if he ceases to hold unencumbered shares of that value.

12. *Casual vacancies.*—(*1*) If the Governor or a Deputy Governor by infirmity or otherwise is rendered incapable of executing his duties or is absent on leave or otherwise in circumstances not involving the vacation of his appointment, the Governor General in Council may appoint another person to officiate for him, and such person may notwithstanding anything contained in clause (*b*) of sub-section (*1*) of section 8, be an officer of the Bank.

(*2*) A casual vacancy in the office of a Director, other than the vacancies provided for in sub-section (*1*), shall be filled in the manner in which, and by the authority by whom, the nomination or election of the Director vacating office was made; and the Director so nominated or elected shall hold office for the unexpired portion of the term of his predecessor.

13. *Power to make election rules.*—The Governor General in Council may, after previous publication, make rules to provide for all matters for which provision is in his opinion necessary or expedient for the holding and conduct of elections under this Act, and in particular and without prejudice to the generality of the foregoing power, may by such rules provide—

(*a*) for the holding of elections according to the principle of proportional representation by means of the single transferable vote or otherwise as he thinks fit in any case, and

(*b*) for the final decision of doubts or disputes regarding the qualifications of any candidate for election or regarding the validity of elections.

14. *Meetings of the Board.*—Meetings of the Board shall be convened by the Governor at least six times in each year and at least once in each quarter. Meetings shall ordinarily be held in Bombay, but at least two meetings of the Board shall be held in Calcutta in each year.

15. *General meetings.*—(*1*) A general meeting (hereinafter in this Act referred to as the annual general meeting) shall be held annually at Bombay within six weeks from the date on which the annual accounts of the Bank are closed, and a general meeting may be convened by the Board at any other time.

(*2*) Any shareholder shall be entitled to attend and vote at any general meeting, and no shareholder, whether present in person or voting through another shareholder as proxy, shall have more than one vote.

16. *Temporary provisions.*—(*1*) The following provisions shall apply to the first constitution of the Board, and, notwithstanding anything contained in section 9, the Board as constituted in accordance therewith shall be deemed to be duly constituted in accordance with this Act.

(*2*) The first Governor and first Deputy Governors shall be appointed by the Governor General in Council on his own initiative, and shall receive such salaries and allowances as he may determine.

(*3*) The first four Directors nominated under clause (*b*) of sub-section (*1*) of section 9 shall hold office for three years.

(*4*) The first four Directors elected under clauses (*c*) and (*d*) of that sub-section shall hold office for four years.

(*5*) The first Director elected under clause (*e*) of that sub-section may be elected by all provincial co-operative banks notwithstanding that shares have not been allotted, and shall hold office for four years.

(*6*) The first eleven Directors representing the shareholders shall be nominated by the Governor General in Council after consultation with the Local Governments, and shall hold office for two years.

(*7*) The first elections of Directors under section 10 shall be held before the expiry of the term of office of the Directors nominated under sub-section (*6*), and the Directors so elected shall hold office as follows, namely:—

(*a*) the Directors elected on behalf of the shareholders on the Bombay register—for four years;

(*b*) the Directors elected on behalf of the shareholders on the Calcutta register—for three years;

(*c*) the Director elected on behalf of the shareholders on the Madras register—for five years;

(*d*) the Director elected on behalf of the shareholders on the Rangoon register—for five years;

(*e*) the Directors elected on behalf of the shareholders on the Delhi register—for two years.

Business of the Bank.

17. *Business which the Bank may transact.*—The Bank shall be authorised to carry on and transact the several kinds of business hereinafter specified, namely:—

(*1*) the accepting of money on deposit without interest from, and the collection of money for, the Secretary of State in Council, the Governor General in Council, Local Governments, banks and any other persons;

(*2*) (*a*) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India, and arising out of *bonâ fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(*b*) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank, or a provincial co-operative bank, and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within six months from the date of such purchase or rediscount, exclusive of days of grace: provided that the total face value of bills or notes so purchased or rediscounted shall not at any time exceed one-fourth of the

total face value of all bills and notes purchased or rediscounted by the Bank up to that time;

(c) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing the signature of a scheduled bank, and issued or drawn for the purpose of holding or trading in securities of the Government of India or a Local Government, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(3) the purchase from and sale to scheduled banks and persons approved by the Board, in amounts of not less than the equivalent of one lakh of rupees, of the currencies of such gold standard countries as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, and of bills of exchange (including treasury bills) drawn in or on any place in any such country, and maturing within ninety days from the date of such purchase, exclusive of days of grace; and the keeping of balances with banks in such countries;

(4) the making of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days against the security of—

(a) stocks, funds and securities (other than immoveable property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any law for the time being in force in British India;

(b) gold coin or bullion or documents of title to the same;

(c) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank: provided that the total of the loans and advances against such securities as are referred to in sub-clause (b) of clause (2) shall not at any time exceed one-fourth of the total loans and advances made by the Bank up to that time;

(d) such bills of exchange as are eligible for purchase by the Bank under clause (3);

(e) promissory notes of any scheduled bank or a provincial co-operative bank, supported by documents evidencing title to goods which have been transferred, assigned, hypothecated or pledged to any such bank as security for a cash credit granted for *bonâ fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops: provided that no loan or advance shall be made on the security of any promissory note such as is referred to in this sub-clause after the expiry of five years from the date on which this section comes into force;

(5) the making of advances to the Governor General in Council repayable in each case not later than three months after the close of the financial year in respect of which the advance has been made;

(6) the issue of demand drafts and the making, issue and circulation of bank post bills made payable on its own branches;

(7) the purchase and sale of securities, maturing within five years from the date of such purchase, of the Government of any gold standard country specified in this behalf by the Governor General in Council by notification in the Gazette of India;

(8) the purchase and sale of securities of the Government of India of any maturity, or of a Local Government or of a local authority in British India maturing within ten years from the date of

purchase: provided that the amount of such securities held at any time in the Banking Department shall be so regulated that—

(*a*) the total value of such securities shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and two-fifths of the liabilities of the Banking Department in respect of deposits;

(*b*) the value of such securities maturing after six months shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and one-fifth of the liabilities of the Banking Department in respect of deposits;

(*c*) the value of such securities maturing after one year shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and one-tenth of the liabilities of the Banking Department in respect of deposits; and

(*d*) the value of such securities maturing after ten years shall not exceed the aggregate amount of the share capital of the Bank and the Reserve Fund;

(*9*) the custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities;

(*10*) the sale and realisation of all property, whether moveable or immoveable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims;

(*11*) the acting as agent for the Secretary of State in Council, the Governor General in Council or any Local Government in the transaction of any of the following kinds of business, namely:—

(*a*) the purchase and sale of gold or silver;

(*b*) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company;

(*c*) the collection of the proceeds, whether principal, interest or dividends, of any securities or shares;

(*d*) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere;

(*e*) the management of public debt;

(*12*) the purchase and sale of gold coin and bullion;

(*13*) the opening of an account with, and the acting as agent or correspondent of, any other bank which is the principal currency authority of a gold standard country under the law for the time being in force in that country or any of the Federal Reserve Banks in the United States of America;

(*14*) the borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed:

Provided that the total amount of such borrowings shall not at any time exceed the amount of the share capital of the Bank:

Provided, further, that no money shall be borrowed under this clause from any person in British India other than a scheduled bank;

(*15*) the making and issue of bank notes subject to the provisions of this Act; and

(*16*) generally, the doing of all such matters and things as may be incidental or subsidiary to the transaction of the various kinds of business hereinbefore specified.

18. *Power of direct discount.*—When, in the opinion of the Board, it is necessary or expedient that action should be taken under this section in the

interests of Indian trade or commerce, or for the purpose of enabling the Bank to perform any of its functions under this Act, the Bank may, notwithstanding any limitation contained in sub-clauses (*a*) and (*b*) of clause (*2*) of section 17, purchase, sell or discount any bills of exchange or promissory notes drawn and payable in India and arising out of *bonâ fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount, exclusive of days of grace.

19. *Business which the Bank may not transact.*—Save as otherwise provided in sections 17, 18 and 45, the Bank may not—

(*1*) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking, except such interest as it may in any way acquire in the course of the satisfaction of any of its claims: provided that all such interests shall be disposed of at the earliest possible moment;

(*2*) purchase its own shares or the shares of any other bank or of any company, or grant loans upon the security of any such shares;

(*3*) advance money on mortgage of, or otherwise on the security of, immoveable property or documents of title relating thereto, or become the owner of immoveable property, except so far as is necessary for its own business premises and residences for its officers and servants;

(*4*) make unsecured loans or advances;

(*5*) draw or accept bills payable otherwise than on demand;

(*6*) allow interest on deposits or current accounts.

CHAPTER III.

Central Banking Functions.

Relations of the Bank with the Secretary of State in Council, the Governor General in Council and Local Governments.

20. *Obligation of Bank to transact Government business.*—The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues, and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, including the management of the public debt, on such conditions as may be agreed upon.

21. *Bank to have the right to transact Government business.*—(*1*) The Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues shall undertake to entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India and elsewhere and, in particular, to deposit free of interest all their cash balances with the Bank:

Provided that nothing in this sub-section shall prevent the Governor General in Council or any Local Government from carrying on money transactions at government treasuries or sub-treasuries at places where the Bank has no branches or agencies, and the Governor General in Council and Local Governments may hold at such treasuries and sub-treasuries such balances as they may require.

(*2*) The Governor General in Council and each Local Government shall undertake to entrust the Bank, on such conditions as may be agreed upon, with the management of the public debt and with the issue of any new loans.

Note Issue.

22. *Right to issue bank notes.*—(*1*) The Bank shall have the sole right to issue paper money in British India, and may, for a period of one year from the date on which this Chapter comes into force, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions of this Act applicable to bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the Bank in like manner as if such currency notes were bank notes, and references in this Act to bank notes shall be construed accordingly.

(*2*) On and from the aforesaid date the Governor General in Council shall not issue any currency notes or any other kind of paper money.

23. *Issue Department.*—(*1*) The issue of bank notes shall be conducted by the Bank in an Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as hereinafter defined in section 32.

(*2*) The Issue Department shall not issue bank notes to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

24. *Denominations of notes.*—Bank notes shall be of the denominational values of five rupees, ten rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees and ten thousand rupees, and of such other denominational values, if any, as may be directed by the Governor General in Council.

25. *Form of bank notes.*—The design, form and material of bank notes shall be such as may be approved by the Governor General in Council.

26. *Legal tender character of notes.*—(*1*) Subject to the provisions of sub-section (*2*), every bank note shall be legal tender at any place in British India in payment or on account for the amount expressed therein, and shall be guaranteed by the Governor General in Council.

(*2*) The Governor General in Council may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at an office or agency of the Bank.

27. *Re-issue of notes.*—Any bank note re-issued from any office of the Bank shall be sterilized and disinfected before re-issue, and the bank shall not re-issue bank notes which are torn, defaced or excessively soiled.

28. *Recovery of notes lost, stolen, mutilated or imperfect.*—Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Governor General in Council or the Bank the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note:

Provided that the Bank may, with the previous sanction of the Governor General in Council, prescribe the circumstances in, and the conditions and limitations subject to, which the value of such currency notes or bank notes may be refunded as of grace.

Prohibition of issue of private bills or notes payable to bearer on demand.

29. *Issue of demand bills and notes.*—No person in British India other than the Bank or, as expressly authorised by this Act, the Governor General in Council shall draw, accept, make or issue any bill of exchange, *hundi*, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, *hundis* or notes payable to bearer on demand of any such person:

Provided that cheques or drafts payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.

30. *Penalty.*—(*1*) Any person contravening the provisions of section 29 shall, on conviction by a Presidency Magistrate or a Magistrate of the first class, be punishable with fine equal to the amount of the bill, *hundi*, note or engagement in respect whereof the offence is committed.

(*2*) No prosecution under this section shall be instituted except on complaint made by the Bank.

Assets of the Issue Department.

31. *The Reserve.*—(*1*) The Reserve shall consist of gold coin, gold bullion, gold securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined.

(*2*) Of the total amount of the Reserve, not less than two-fifths shall consist of gold coin, gold bullion or gold securities:

Provided that the amount of gold coin and gold bullion shall not at any time be less than thirty crores of rupees in value, and shall not be less than one-fifth of the total amount of the Reserve after the end of the fifth year, or than one-quarter of the total amount of the Reserve after the end of the tenth year, from the date on which this Chapter comes into force.

(*3*) The remainder of the Reserve shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes drawn and payable in British India as are eligible for purchase by the Bank under sub-clause (*a*) or sub-clause (*b*) of clause (*2*) of section 17 or under section 18:

Provided that the amount held in rupee coin shall not exceed—

(*a*) during the three years after the date on which this Chapter comes into force, ninety-five crores of rupees.

(*b*) during the next three years, seventy-five crores of rupees,

(*c*) during the next four years, sixty crores of rupees, and

(*d*) fifty crores of rupees thereafter,

or one-tenth of the total amount of the Reserve, whichever amount is greater:

Provided further that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the Reserve or fifty crores of rupees, whichever amount is less.

(*4*) For the purposes of this section, gold coin and gold bullion shall be valued at 8·47512 grains of fine gold per rupee, rupee coin shall be valued at its face value, and gold and rupee securities shall be valued at the market rate for the time being obtaining.

(*5*) Of the gold coin and gold bullion held in the Reserve, not less than seventeen-twentieths shall be held in British India, and all gold coin and gold bullion forming part of the Reserve shall be held in the custody of the Bank or its agencies:

Provided that gold belonging to the Bank which is in any other bank or in any mint or treasury or in transit may be reckoned as part of the Reserve.

(*6*) For the purposes of this section, the gold securities which may be held as part of the Reserve shall be securities of any of the following kinds payable in the currency of any of such gold standard countries as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, namely:—

(*a*) balances at the credit of the Issue Department with a bank which is the principal currency authority under the law for the time being in force of such country, or with any of the Federal Reserve Banks in the United States of America;

(*b*) bills of exchange bearing two or more good signatures and drawn on and payable at a place in any such country and having a maturity not exceeding ninety days;

(c) securities maturing within five years of the Government of any part of His Majesty's dominions which is a gold standard country or of any other gold standard country specified in this behalf by the Governor General in Council by notification in the Gazette of India:

Provided that, for a period of two years from the date on which this Chapter comes into force,—

(i) any of such last-mentioned securities may be securities maturing after five years, and the Bank may, at any time before the expiry of that period, dispose of such securities notwithstanding anything contained in section 17, and

(ii) sterling securities of the Government of India may be held as part of the Reserve.

Liabilities of the Issue Department.

32. *Liabilities.*—(1) The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and bank notes for the time being in circulation and of an initial amount of forty crores of rupees for the purpose of providing for rupee redemption, which last-mentioned amount shall be reduced by one rupee for every five rupees delivered to the Governor General in Council under the provisions of section 34, and shall be increased by one rupee for every five rupees received from him under section 35.

(2) For the purposes of this section, any currency note of the Government of India or bank note which has not been presented for payment within forty years from the 1st day of April following the date of its issue shall be deemed not to be in circulation, and the value thereof shall, notwithstanding anything contained in sub-section (2) of section 23, be paid by the Issue Department to the Governor General in Council or the Banking Department, as the case may be; but any such note, if subsequently presented for payment, shall be paid by the Banking Department, and any such payment in the case of a currency note of the Government of India shall be debited to the Governor General in Council.

Initial Assets and Liabilities.

33. *Transfer of assets and liabilities to the Bank.*—On the date on which this Chapter comes into force, the Issue Department shall take over from the Governor General in Council the liability for all the currency notes of the Government of India for the time being in circulation, and the Governor General in Council shall transfer to the Issue Department gold coin, gold bullion, gold securities, rupee coin and rupee securities to such aggregate amount as is equal to the total of the amount of the liability so transferred and of a sum of forty crores of rupees. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of section 31.

Provided that the total amount of the gold coin, gold bullion and gold securities so transferred shall not be less than one-half of the whole amount transferred.

Supply of coin, and of different forms of legal tender currency.

34. *Delivery to Government of surplus rupee coin.*—The Bank may deliver to the Governor General in Council all rupee coin held by it in excess of the amount which the Issue Department is permitted to hold as part of the Reserve under section 31, against payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.

35. *Purchase of rupee coin.*—When the amount of rupee coin for the time being held in the Reserve does not exceed twenty-five crores of rupees,

or one-tenth of the total amount of the Reserve, whichever is greater, the Bank may demand delivery of rupee coin from the Governor General in Council, on payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.

36. *Obligations of Government and Bank in respect of rupee coin.*—The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 34 nor to put into circulation any new rupees, except through the Bank and on the Bank's demand; and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Governor General in Council under that section.

37. *Obligation to supply different forms of currency.*—The Bank shall issue rupee coin on demand in exchange for currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for coin which is legal tender under the Indian Coinage Act, 1906, and it shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value or rupees or other coins which are legal tender under the Indian Coinage Act, 1906, in such quantities as may, in the opinion of the Bank, be required for circulation; and the Governor General in Council shall, subject to the provisions of section 35, supply such rupees or other coins to the Bank on demand. If the Governor General in Council at any time fails to discharge this duty, the Bank shall be released from its obligations to supply such coins to the public.

Obligation to sell gold and gold exchange.

38. *Sale of gold.*—(*1*) The provisions of this section shall have effect from such date, not later than the 1st day of July, 1931, as the Governor General in Council may, by notification in the Gazette of India, appoint:

Provided that the Governor General in Council may, by notification in the Gazette of India stating his reasons for such action, substitute for the year 1931 in this section the year 1932; and may, by like notifications, make two further successive substitutions of the years 1933 and 1934.

(*2*) The Bank shall sell gold bullion for delivery in Bombay to any person who makes a demand in that behalf at its office at Bombay, Calcutta, Madras, Rangoon or Delhi and pays in legal tender currency the purchase price as determined under the provisions of this section:

Provided that no person shall be entitled to demand an amount of gold bullion containing less than two hundred and fifty tolas of fine gold.

(*3*) The price of gold bullion for delivery in Bombay shall be twenty-one rupees, three annas and ten pies per tola of fine gold with an addition representing twice the normal cost per tola of transferring gold bullion in bulk from Bombay to such place in a gold standard country as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, including interest on its value during transit:

Provided that no such addition shall be made when the rate at which the currency of the country in which the place so specified is situate can be purchased in Bombay for immediate delivery at that place is such that the equivalent of the price at which the principal currency authority of that country is bound by law to give gold in exchange for currency is less than twenty-one rupees, three annas and ten pies per tola of fine gold by an amount equal to or greater than the normal cost per tola of transferring gold bullion in bulk from the specified place to Bombay, including interest on its value during transit.

(*4*) The Governor General in Council shall, from time to time, determine in accordance with the provisions of sub-section (*3*) the price at which the Bank shall sell gold bullion for delivery in Bombay, and shall notify the price so determined in the Gazette of India. Such notification shall be conclusive as between the Bank and any other person as to the

price which the Bank shall be entitled to charge in respect of any sale of gold bullion.

39. *Sale of gold exchange.*—(*1*) The Bank shall sell, to any person who makes a demand in that behalf at its office at Bombay, Calcutta, Madras, Rangoon or Delhi and pays the purchase price in legal tender currency, at a rate equivalent to twenty-one rupees, three annas and ten pies per tola of fine gold, the currency of such gold standard country as may be notified in this behalf by the Governor General in Council in the Gazette of India, for immediate delivery in that country:

Provided that no person shall be entitled to demand an amount of currency of less value than that of two hundred and fifty tolas of fine gold.

(*2*) For the purpose of determining the equivalent rate applicable to the sale of currency under this section, twenty-one rupees, three annas and ten pies shall be deemed to be equivalent to such sum in that currency as is required to purchase one tola of fine gold in that country at the rate at which the principal currency authority of that country is bound by law to give currency in exchange for gold, after deduction therefrom of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to that country, including interest on its value during transit.

(*3*) The Governor General in Council shall, from time to time, determine the equivalent rate in accordance with the provisions of sub-section (*2*), and shall notify the rate so determined in the Gazette of India.

Obligation to buy gold.

40. *Obligation of Bank to buy gold.*—The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Madras, Rangoon or Delhi, gold bullion for delivery in Bombay at the rate of twenty-one rupees, three annas and ten pies per tola of fine gold, if such gold is tendered in the form of bars containing not less than two hundred and fifty tolas of fine gold:

Provided that the Bank shall be entitled to require such gold bullion to be melted, assayed and refined, by persons approved by the Bank, at the expense of the person tendering the bullion.

Suspension of Reserve requirements and tax on note issue.

41. *Suspension of Reserve requirements.*—(*1*) The Bank may, with the previous sanction of the Governor General in Council, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold in the Reserve gold coin, gold bullion or gold securities of less aggregate amount than that required by sub-section (*2*) of section 31 and, whilst the hold is so reduced, the proviso to that sub-section shall cease to be operative.

(*2*) In respect of any period during which the holding of gold coin, gold bullion and gold securities is reduced under sub-section (*1*), the Bank shall pay to the Governor General in Council a tax upon the amount by which such holding is reduced below the minimum prescribed by sub-section (*2*) of section 31; such tax shall be payable at the bank rate for the time being in force, with an addition of one per cent. per annum when such holding exceeds thirty-two and a half per cent. of the total amount of the Reserve and of a further one and a half per cent. per annum in respect of every further decrease of two and a half per cent. or part of such decrease:

Provided that the tax shall not in any event be payable at a rate less than six per cent. per annum.

42. *Bank exempt from further note tax.*—The Bank shall not be liable to the payment of any stamp duty under the Indian Stamp Act, 1899, in respect of bank notes issued by it.

Duration of the privilege of note issue.

43. *Powers of Government in respect of note issue and assets of the Bank in certain circumstances.*—If at any time the Bank fails to comply with any provision of this Chapter or with any other provision of this Act, the Governor General in Council may, by notification in the Gazette of India, declare that the Bank has forfeited the right of note issue, and shall thereupon take over the liabilities of the Issue Department together with such portion of the assets of the Bank as is required to meet such liabilities, and thereafter the business of the Issue Department shall be carried on in the manner prescribed by this Act by such agency as the Governor General in Council may determine.

Cash reserves to be maintained by banks.

44. *Cash reserves of certain banks to be kept with the Bank.*—(*1*) Every scheduled bank shall maintain a balance with the Reserve Bank the amount of which shall at no time be less than seven and one-half per cent. of the daily average of the demand, and two and one-half per cent. of the daily average of the time liabilities of such bank in India.

(*2*) For the purposes of sub-section (*1*), the daily average of the amounts of the demand and time liabilities of each scheduled bank shall be computed in respect of each period ending on the fifteenth and on the last day of each month.

(*3*) Every such bank shall send to the Governor General in Council and to the Bank a monthly return, signed by two responsible officers of such bank, showing—

(*a*) the amounts of its demand and time liabilities respectively in India,

(*b*) the total amount held in India in currency notes of the Government of India and bank notes,

(*c*) the amounts held in India in rupee coin and subsidiary coin respectively,

(*d*) the amounts of advances made and of bills discounted in India respectively, and

(*e*) the balance held at the Bank,

at the close of the month to which the return relates.

(*4*) Every such return shall be sent not later than fourteen days after the close of the month to which it relates, and shall state whether the bank has during that month maintained with the Reserve Bank the minimum balance required by sub-section (*1*).

(*5*) Any bank failing to comply with the provisions of sub-section (*3*) or sub-section (*4*) shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty of one hundred rupees for each day during which the failure continues.

(*6*) When it appears from any such monthly return or from a report of the Board that any scheduled bank has failed to maintain the minimum balance required by sub-section (*1*), the Governor General in Council may call for such further return, or make such inspection of the books and accounts of that bank, as may be necessary to ascertain the amount of the deficiency, if any, and the period during which it has continued; and a bank so in default shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty at a rate per annum which shall be three per cent. above the bank rate on the amount of the deficiency for each day during which the default has continued, and shall be raised to five per cent. above the bank rate after the first seven days of the deficiency.

(7) The Governor General in Council shall, by notification in the Gazette of India, direct the inclusion in the First Schedule of any company, not already so included, which carries on the business of banking in British India and which—

(a) is a company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or a corporation or company incorporated by or under any law in force in any place outside British India, and

(b) has a paid-up capital and reserves of an aggregate value of not less than three lakhs of rupees;

and shall, by a like notification, direct the exclusion from that Schedule of any scheduled bank the aggregate value of whose paid-up capital and reserves at any time becomes less than three lakhs of rupees, or which goes into liquidation or otherwise ceases to carry on banking business.

Agreement with the Imperial Bank of India.

45. *Agreement with the Imperial Bank.*—The Bank shall enter into an agreement with the Imperial Bank of India which shall be subject to the approval of the Governor General in Council, and shall be expressed to come into force on the date on which this Chapter comes into force and to remain in force for twenty-five years, and shall further contain the provisions set forth in the second Schedule.

CHAPTER IV.

General Provisions.

Reserve Fund and allocation of Surplus.

46. *Allocation of surplus.*—After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, and such other contingencies as are usually provided for by bankers, and after payment out of the net annual profits of a cumulative dividend at the rate of five per cent. per annum on the share capital, the surplus shall be allocated as follows:—

(a) one-half to a Reserve Fund, until such Reserve Fund is equal to one-half of the share capital, and the remaining one-half to the Governor General in Council;

(b) thereafter, until the Reserve Fund is equal to the share capital, one-tenth to the Reserve Fund, and the balance to the Governor General in Council, and

(c) when and for so long as the Reserve Fund is not less than the share capital, a portion to an additional dividend to the shareholders calculated on the scale set forth in the Third Schedule, and the balance to the Governor General in Council:

Provided that, so long as the Reserve Fund is less than the share capital, not less than fifty lakhs of rupees of the surplus, or the whole of the surplus if less than that amount, shall be allocated to the Reserve Fund.

Bank rate.

47. *Publication of bank rate.*—The Bank shall make public from time to time the minimum rate at which it is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under this Act.

Audit.

48. *Auditors.*—(1) Not less than two auditors shall be elected and their remuneration fixed at the annual general meeting. The auditors may be

shareholders, but no Director or other officer of the Bank shall be eligible during his continuance in office. Any auditor shall be eligible for re-election on quitting office.

(*2*) The first auditors of the Bank may be appointed by the Board before the first annual general meeting and, if so appointed, shall hold office only until that meeting. All auditors elected under this section shall severally be, and continue to act as, auditors until the first annual general meeting after their respective elections:

Provided that any casual vacancy in the office of any auditor elected under this section may be filled by the Board.

49. *Appointment of special auditors by Government.*—Without prejudice to anything contained in section 48, the Governor General in Council may at any time appoint such auditors as he thinks fit to examine and report upon the accounts of the Bank.

50. (*1*) *Powers and duties of auditors.*—Every auditor shall be supplied with a copy of the annual balance-sheet, and it shall be his duty to examine the same, together with the accounts and vouchers relating thereto; and every auditor shall have a list delivered to him of all books kept by the Bank, and shall at all reasonable times have access to the books, accounts and other documents of the Bank, and may, at the expense of the Bank if appointed by it or at the expense of the Governor General in Council if appointed by him, employ accountants or other persons to assist him in investigating such accounts, and may, in relation to such accounts, examine any Director or officer of the Bank.

(*2*) The auditors shall make a report to the shareholders or to the Governor General in Council, as the case may be, upon the annual balance-sheet and accounts, and in every such report they shall state whether, in their opinion, the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs, and, in case they have called for any explanation or information from the board, whether it has been given and whether it is satisfactory. Any such report made to the shareholders shall be read, together with the report of the Board, at the annual general meeting.

Returns.

51. *Returns.*—(*1*) The Bank shall prepare and transmit to the Governor General in Council a weekly account of the Issue Department and of the Banking Department in the form set out in the Fourth Schedule or in such other form as the Governor General in Council may, by notification in the Gazette of India, prescribe. The Governor General in Council shall cause these accounts to be published weekly in the Gazette of India.

(*2*) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a copy of the annual accounts signed by the Governor, the Deputy Governors and the Chief Accounting Officer of the Bank, and certified by the auditors, and the Governor General in Council shall cause such accounts to be published in the Gazette of India.

(*3*) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a statement showing the name, address and occupation of, and the number of shares held by, each shareholder of the Bank.

Liquidation.

52. *Provision regarding application of Act VII of 1913 and liquidation.*—(*1*) Nothing in the Indian Companies Act, 1913, shall apply to the Bank, and the Bank shall not be placed in voluntary or compulsory liquidation save with the sanction of the Governor General in Council and in such manner as he may direct.

(2) In such event the Reserve Fund and surplus assets, if any, of the Bank shall be divided between the Governor General in Council and the shareholders in the proportion of seventy-five per cent. and twenty-five per cent., respectively.

Regulations.

53. *Power of the Board to make regulations.*—(1) The Board may, with the previous sanction of the Governor General in Council, make regulations consistent with this Act to provide for all matters for which provision is necessary or convenient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing provision, such regulations may provide for all or any of the following matters, namely:—

(*a*) the maintenance of the share register, the manner in which and the conditions subject to which shares may be held and transferred, and, generally, all matters relating to the rights and duties of shareholders;

(*b*) the manner in which general meetings shall be convened and the procedure to be followed thereat;

(*c*) the manner in which notices may be served on behalf of the Bank upon shareholders or other persons;

(*d*) the manner in which the business of the Board shall be transacted, and the procedure to be followed at meetings thereof;

(*e*) the establishment of Local Boards and the delegation to such Boards of powers and functions;

(*f*) the constitution and management of staff and superannuation funds for the officers and servants of the Bank;

(*g*) the manner and form in which contracts binding on the Bank may be executed;

(*h*) the provision of an official seal of the Bank and the manner and effect of its use;

(*i*) the manner and form in which the balance-sheet of the Bank shall be drawn up, and in which the accounts shall be maintained;

(*j*) the circumstances in which, and the conditions and limitations subject to which, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note may be refunded; and

(*k*) generally, for the efficient conduct of the business of the Bank.

Amendments and Repeal.

54. *Amendment of Act III of 1906.*—In the Indian Coinage Act, 1906, for section 11 the following section shall be substituted, namely:—

"11. *Demonetisation of sovereign and half-sovereign.*—Gold coins, coined at His Majesty's Royal Mint in England or at any mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall not be legal tender in British India in payment or on account, but such coins shall be received by the Reserve Bank of India at its offices and agencies in India at the bullion value of such coins calculated at the rate of 8·47512 grains troy of fine gold per rupee."

55. *Repeals.*—The Indian Paper Currency Act, 1923, and the Currency Act, 1927, are hereby repealed.

THE FIRST SCHEDULE.

[See section 2 (*m*).]

Schedule of Banks.

Ajodhia Bank, Fyzabad.
Allahabad Bank.
American Express Company Incorporated.
Banco Nacional Ultramarino.
Bangalore Bank.
Bank of Baroda.
Bank of Behar.
Bank of India, Bombay.
Bank of Morvi.
Bank of Mysore.
Bank of Taiwan.
Bari Doab Bank, Lahore.
Benares Bank.
Bhargava Commercial Bank.
Bhowanipore Banking Corporation, Calcutta.
Bombay Merchants' Bank, Bombay.
Byopar Sahayak Bank, Meerut.
Canara Bank.
Central Bank of India.
Chartered Bank of India, Australia and China.
Chota Nagpur Banking Association.
Coimbatore Town Bank.
Comptoir National d'Escompte de Paris.
Dawsons Bank, Pyapon.
Eastern Bank.
Equitable Eastern Banking Corporation.
Grindlay and Company.
Hongkong and Shanghai Banking Corporation.
Imperial Bank of India.
Imperial Bank of Persia.
Indian Bank.
Industrial Bank of Western India.
Jailpaiguri Banking and Trading Corporation.
Karachi Bank, Karachi.
Karnani Industrial Bank.
Lloyds Bank.
Lyallpur Bank.
Mercantile Bank of India.
Mitsui Bank.
Muffassil Bank, Gorakhpur.
Mysore Industrial Bank.
Namboodiri Bank, Pallippuram.
National Bank of India.
National City Bank of New York.
Nederlandsche Indische Handels-bank.
Nederlandsche Handel-Maatschappij.
Nedungadi Bank, Calicut.
Oudh Commercial Bank.
P. and O. Banking Corporation.
People's Bank of Northern India.
Punjab and Kashmir Bank, Rawalpindi.
Punjab and Sind Bank, Amritsar.
Punjab Co-operative Bank.
Punjab National Bank.
Shilotri Bank, Bombay.
Simla Banking and Industrial Company.
South India Bank, Tinnevelly.
Sumitomo Bank.
Thomas Cook & Sons.
Union Bank of India.
U. Rai Gyaw Thoo and Co., Akyab.
Yokohama Specie Bank.

THE SECOND SCHEDULE.

(See section 45.)

Provisions to be contained in the agreement between the Reserve Bank of India and the Imperial Bank of India.

1. The Imperial Bank of India shall be the sole agent of the Reserve Bank of India at all places in British India where there is a branch of the Imperial Bank of India and no branch of the Banking Department of the Reserve Bank of India.

2. In consideration of the performance by the Imperial Bank of India on behalf of the Reserve Bank of India of the functions which the Imperial Bank of India was performing on behalf of the Governor General in Council at the places referred to in clause 1 before the coming into force of the Reserve Bank of India Act, 1928, the Reserve Bank of India shall pay to the Imperial Bank of India a commission calculated on the total of the receipts and disbursements dealt with annually on account of Government by the Imperial Bank of India on behalf of the Reserve Bank of India. Such commission shall be one-sixteenth of one per cent. on the first 250 crores of such total and one-thirty-second of one per cent. on the remainder.

3. Subject to the condition that the Imperial Bank of India shall keep open branches not less in number than those existing at the time of the coming into force of the Reserve Bank of India Act, 1928, the Reserve Bank of India shall allow the following balances to the Imperial Bank of India at the interest rates hereinafter specified, namely:—

(*a*) during the first five years from that time—3 crores free of interest;

(*b*) during the next five years—2 crores free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 1 crore at 2 per cent. per annum;

(*c*) during the next five years—1 crore free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 2 crores at 2 per cent. per annum; and

(*d*) during the next five years—at the option of the Imperial Bank of India, an amount not exceeding 3 crores at 2 per cent. per annum.

4. The Imperial Bank of India shall not without the approval of the Reserve Bank of India open any branch in substitution for a branch existing at the time this agreement comes into force.

THE THIRD SCHEDULE.

(See section 46.)

Scale of additional dividend payable to shareholders.

A. So long as the share capital of the Bank is five crores of rupees—

(1) if the surplus does not exceed four crores of rupees—*Nil;*

(2) if the surplus exceeds four crores of rupees—

(*a*) out of such excess up to the first one and a half crores of rupees—a fraction of one-thirtieth;

(*b*) out of each successive additional excess up to one and a half crores of rupees—one-half of the fraction payable out of the next previous one and a half crores of excess:

Provided that the additional dividend shall be a multiple of one-eighth of one per cent. on the share capital, the amount of the surplus allocated thereto being rounded up or down to the nearest one-eighth of one per cent. on the share capital.

B. When the original share capital of the Bank has been increased or reduced, the additional dividend shall be calculated in the manner provided in clauses (1) and (2) above, but the fraction of one-thirtieth mentioned in sub-clause (*a*) of clause (2) shall be increased or diminished in proportion to the increase or reduction of the share capital.

THE FOURTH SCHEDULE.

(See section 51.)

RESERVE BANK OF INDIA.

An Account pursuant to the Gold Standard and Reserve Bank of India Act, 1928, for the week ending on the day of

Issue Department.

Liabilities.	Rs.	*Assets.*	Rs.
Bank Notes held in the Banking Department.		Rupee coin	
Bank Notes in circulation .		Government of India rupee securities.	
Total Bank Notes issued .		Internal Bills of Exchange and other commercial paper.	
Government of India Notes in circulation.		Gold securities . . .	
Rupee redemption . .		Gold coin or bullion—	
		(*a*) held in India . .	
		(*b*) held outside India .	

Ratio of gold and gold securities to liabilities, per cent.

Dated the day of 19

Banking Department.

Liabilities.	Rs.	*Assets.*	Rs.
Capital paid up		Notes	
Reserve Fund		Rupee coin	
Deposits—		Subsidiary coin . . .	
(*a*) Government . .		Bills discounted—	
(*b*) Banks		(*a*) Internal . . .	
(*c*) Others		(*b*) External . . .	
Bills payable		(*c*) Government of India Treasury Bills.	
Other liabilities		Balances held abroad . .	
		Loans and advances to the Government.	
		Other loans and advances .	
		Investments	
		Other assets	

Dated the day of 19

ANNEXURE VI.

Cattle Insurance.—I have tried to appreciate the object behind the Agricultural Loans Act and the Land Improvements Act. A detailed examination of the working of these Acts in various provinces would be found in the Provincial Committees' Reports. One of the purposes, which has, however, been universally approved all round in connection with these acts as well as in connection with the co-operative movement, is a loan to the agriculturists for the purchase of cattle. The discussion on this subject has brought out the definite fact that most of the agriculturists are not in a position, without borrowed money, to replace their cattle. The death of cattle not only during a famine year, but in the ordinary course, is an economic misfortune for the agriculturist, the magnitude of which can be only likened to the occurrence of a fire in the case of an industrial concern. Since cattle must die, sometime or the other, this misfortune must occur everywhere. Their automatic replacement from young stock can take place and possibly does take place, but not in all cases. The important point is that, where an agriculturist has to borrow on this account, the heavy rates, at which he borrows, places on him a burden, which in the course of a few years, is altogether out of proportion to the benefit, which he derives. Could any means be devised, by which ~~he can~~ be saved these heavy charges? Elsewhere ~~in the world~~ communities, who consider agricultural stock as an important asset, have solved the problem by means of cattle insurance. In India experiments in cattle insurance by co-operative cattle insurance societies have not had yet a marked success. It is sad that they failed, because they did not have sufficient actuarial data. Co-operative societies would undoubtedly be helpful, because they are in a position to collect small sums from their members by way of a premium, but, in order to be sound, insurance would have to be over large tracts. It would have to be spread over many districts, so that an epidemic in one area would not inflict a fatal loss on the society.

As far as is known, cattle insurance is not effected in India by English Companies. I do not regard that it is a promising field for insurance companies. The main difficulty would be the collection of small sums from the cultivator.

On the desirability of instituting cattle insurance, there can be no two opinions, as it would obviate the heavy interest charge and give the cultivator a sense of security, which he does not at present enjoy. From what is known about the Indian cultivator, there is not the slightest doubt that he would fight shy, in the first instance, of a system with which he is not familiar, but once the initial stage is got over and he has seen or heard of a party, whose cattle was promptly replaced from moneys, which the Insurance Company paid, he would come in at once. Ever since the co-operative movement has been introduced in this country, cattle insurance has been talked about, but nothing has been done. Had it been a suitable field for private enterprise, foreign Insurance Companies, who have penetrated far and wide in every other branch of insurance, would not have neglected this. It would, therefore, appear that something more drastic would have to be attempted if cattle insurance is to become a reality in India. It is obvious that for some years the risk, if it is a risk, would have to be carried by the community. It is further obvious that the collection of small charges in respect of premium could be best made with the land revenue without additional charge for collection and with the certainty, which is essential. Taking these two facts together, leads one to the inevitable conclusion that cattle insurance in India would have to be established as a Government concern. The charges collected would, after paying for the cost of administration, suffice for the claims, and the cost of administration, if it is running as a state concern, could be kept down. Further, the possibility of frauds, from which private enterprise will have to take great precautions,

would be less, as the ryot is not likely, untutored and on his own initiative, to attempt to put up fraudulent claims against the state.

While logically the conclusion is this, I realise that it would be a great task. There will be many practical difficulties and many considerations needing a close examination, before Government can launch out on this programme. But I make the suggestion and I would recommend that it should be considered. Full information should be secured with regard to the experience of other countries in this direction. Even when the scheme is ready, it should be only introduced in some selected districts in each province, and after experience has been gained, if there is full justification for going ahead, it may be universalised.

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